

**CITY OF ALPENA
ALPENA, MICHIGAN**

Comprehensive Annual Financial Report
Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ALPENA, MICHIGAN	County ALPENA
Audit Date 06/30/2004	Opinion Date 11/15/2004	Date Accountant Report Submitted to State: 12/29/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGR).			x

Certified Public Accountant (Firm Name) STRALEY, ILSLEY & LAMP P.C.			
Street Address 2106 U.S. 23 SOUTH; P.O. BOX 738	City ALPENA	State MI	ZIP 49707
Accountant Signature <i>Mark A. Semelich</i>		Date 12/28/04	

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF ALPENA

June 30, 2004

City Council

John F. Gilmet, Mayor

David R. Karschnick Sr., Mayor Pro-Tem

Carol A. Shafto, Councilwoman

Michael P. Polluch, Councilman

Sam Eiler, Councilman

City Manager

Alan L. Bakalarski

Prepared by:

City Clerk/Treasurer/Finance Director's Office

Financial Officer

Karen Hebert

Independent Auditors

Straley, Ilsley & Lamp P.C.

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I. INTRODUCTORY SECTION

The Introductory Section Contains:

- A. Certificate of Achievement**
- B. Organization Chart**
- C. Transmittal Letter**
- D. Administrative Staff**

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Alpena,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

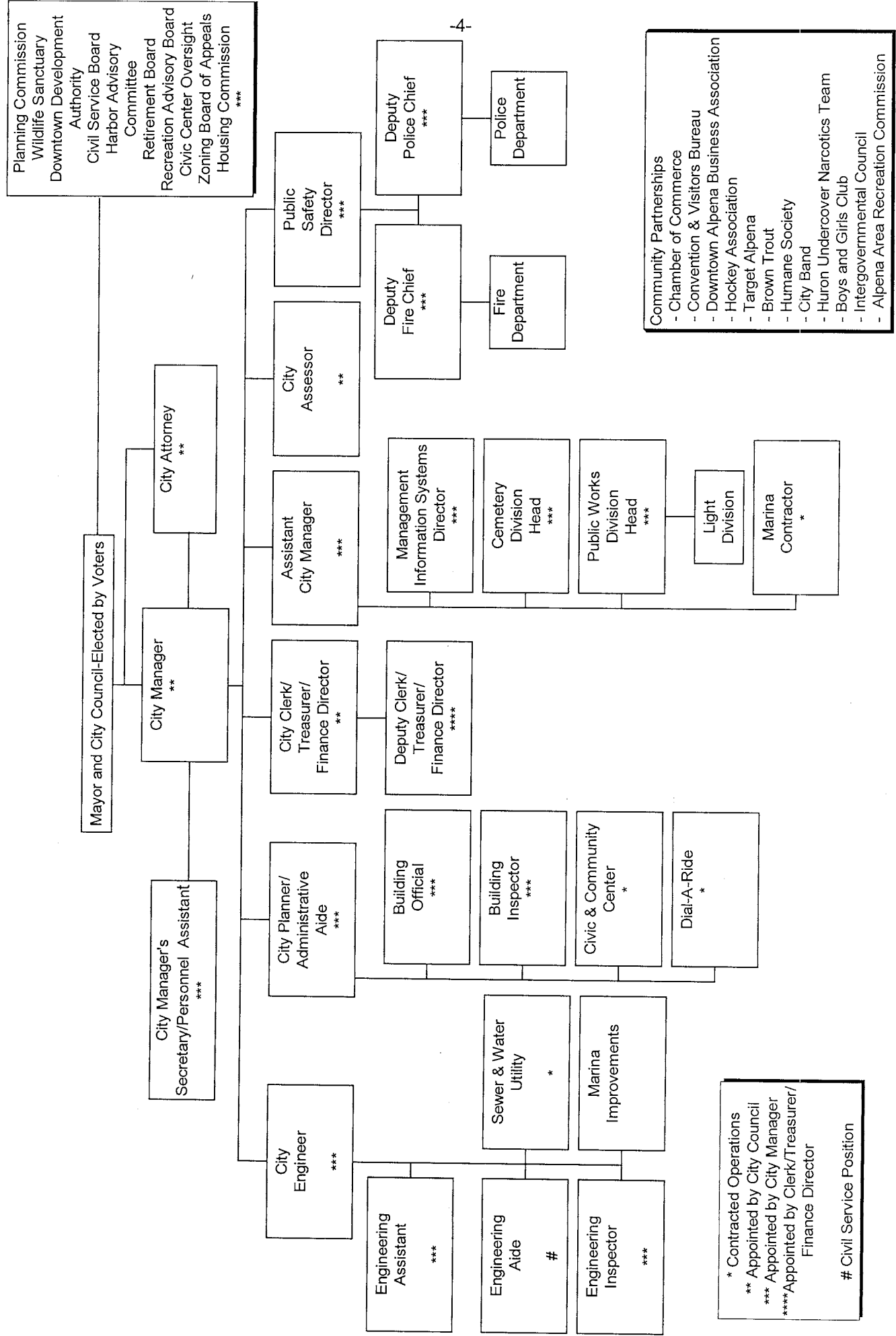
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Alpena Organizational Chart





City of Alpena

CITY HALL • 208 NORTH FIRST AVENUE • ALPENA, MICHIGAN 49707-2885
www.alpena.mi.us

November 15, 2004

To the Members of the City Council:

The comprehensive annual financial report of the City of Alpena, Michigan, for the fiscal year ended June 30, 2004, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operation of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes the Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, this transmittal letter and a list of administrative staff. The financial section includes the basic financial statements which include government-wide financial statements, fund financial statements, footnotes and required supplementary information and the combining and individual fund financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The financial information included herein represents the second year of reporting under the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and is thereby enhanced by more comprehensive comparative information with prior year activity. This letter of transmittal is designed to complement the Management Discussion and Analysis and should be read in conjunction with it. The Management Discussion and Analysis can be found immediately following the Independent Auditor Report.

This report includes all funds and account groups of the government. The government provides a full range of services. These services include police, ambulance and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; cemetery services; recreational activities and cultural events; Dial-A-Ride transportation services, and water and sewage services. In addition to general government activities, the City exercises significant influence or accountability based primarily on operational or financial relationships (as distinct from legal relationships) with the Building Authority, Downtown Development Authority and the Economic Development Corporation; therefore, these component unit activities are included in the reporting entity.

ECONOMIC CONDITIONS AND OUTLOOK

The City of Alpena is the county seat of Alpena County. Alpena is located on the west shore of Lake Huron and is one of the oldest chartered communities in the Lower Peninsula. Alpena is a community highly dependent on its industrial base, as it has been since it was laid out in 1840. In the early historical days, Alpena was a thriving lumbering/logging community, reaching a peak population of 15,600 in 1897. By the end of the 1880s, Alpena was nearing the end of its lumbering heyday when the cement industry surpassed the lumbering industry in the early twentieth century. The cement industry continues to remain an integral, valuable, and important part of the City. Many government agencies, organizations, and commercial concerns make the City their headquarters for this area and lend stability to the economy. Alpena continues a gradual economic growth.

According to the 2000 census, the City of Alpena, with 11,304 persons, is the largest political entity within the county and comprises more than 37% of total county population. The City is completely surrounded by Alpena Township. The City has 4,874 households with a total of 5,200 total housing units according to the 2000 census. The largest percentage of workers (18.7%) are employed in the retail trade industry; 16.3% are government workers; 12.87% manufacturing; health services 10%, and educational services 9.6%. Totally, 4,558 workers are employed in the City. In a 10-year period through June 30, 2004, the increase in taxable valuation was 32.41% to \$243,361,991.

Municipal services provided to its taxpayers include: legislative, executive, elections, assessing, finance, public safety, law enforcement, fire protection, ambulance, building inspection, parks and recreation, an electrical division, cemetery, cultural, conservation of natural resources, planning, engineering, and other functions. In addition, the City maintains three enterprise funds, which provide water, sewer, and public transportation services. Other funds include transportation and computer rental services and a construction fund. The City also established a Budget Stabilization Fund (Rainy Day Fund), Public Works Building Construction Fund, and the Building Authority Fund.

The City of Alpena operates under the Council-Manager form of government. The City's charter was adopted September 1, 1915, and then revised March 13, 1944. The Council consists of five members who are elected by the residents of the City who are qualified to vote under the Constitution and Laws of the State of Michigan. The members of the Council serve for a term of four years. The Mayor of the City is elected at large by the voters of the City and also serves a four-year term.

The City Charter provides for a chief administrative office headed by a City Manager. The City Council appoints the City Manager based on his/her education, work experience, training, and ability without regard to political preference. The Manager serves at the pleasure of the City Council. The Manager appoints the Assistant City Manager, City Engineer, Public Safety Director, City Planner/Administrative Aide, Management Information Systems Director and others as may be determined by the City Council, all subject to confirmation by the Council. The offices of City Clerk/Treasurer/Finance Director, City Attorney, and City Assessor are appointed directly by the City Council.

The revenue sharing cuts by the State of Michigan since 2001-2002 have negatively impacted our City as well as all others state-wide. The 2003-2004 cut was \$52,990 which was much less severe than the \$183,513 cut of 2002-2003. The projected revenue for 2004-2005 is \$1,435,494, which is \$46,560 less than 2003-2004.

The continued decrease in revenue from the State has forced the City to reduce capital projects and keep vacant positions unfilled in the Department of Public Works, Police, and Fire. Clerical staff in the Clerk/Treasurer/Finance Director's office was reduced from four full-time positions to three full-time and one part-time position.

Challenges are approached from a positive manner, and the leadership attempts to direct efforts from a regional perspective. Developments within the education and medical communities continue to enhance and strengthen the City. Private sector development has experienced modest gains, and the local real estate market is stable. Infrastructure improvements have made a significant difference in the aesthetic appearance of the City's residential areas, business community, and utility operations. Residential improvements continue to progress as the community image improves. Tourism is viewed as an activity,

which promotes the area and attracts visitors in increasing numbers each year. These visitors make a contribution to the vitality of the business community throughout the region. Unemployment rates in Alpena County as a whole are above average at 9.2% for 2004 compared to 7% for the State. Alpena is actively preparing for accommodating a large and growing elderly population who settle in the area close to the regional hospital. Hunting, fishing, and nearby Lake Huron make the environment conducive to exceptional living.

The City has been an active participant in attempts to redevelop the former Fletcher Paper Mill site. In August 2002 Alpena Marc LLC, (Jeff Konczak, Managing Partner) acquired the mill and its assets. Mr. Konczak has proposed converting the mill to a mixed-use development consisting of retail, institutional, restaurant, hotel, and limited-specialty manufacturing (brewery & soft drink manufacture) uses utilizing the existing buildings and restoring the oldest portions of the mill to their appearance circa the 1920's. New construction will mirror the architectural style of the existing buildings. A boardwalk, varying in width between 10 and 25 feet, will extend along the Thunder Bay River from Second to Ninth Avenues, a distance of nearly 3,000 feet. Total project cost over a 6 to 8 year build-out is projected at approximately \$33 to \$60 million. The first phase consisting of the National Marine Sanctuary Heritage Center (visitors and interpretive center) and the Fletcher Street Brewing Co. is under construction. The National Oceanic and Atmospheric Administration (NOAA) have signed a lease with Alpena Marc, permitting the conversion of the former paper coatings building into a state-of-the-art Marine Heritage Center. The Center will open in mid to late 2005 and will serve as a catalyst for further development on the site.

In support of this project the City applied for and received a \$1.6 million CDBG grant for infrastructure improvements along Fletcher Street (the main entrance to the development) including sanitary sewer and water upgrades, street reconstruction, new sidewalks, decorative paving, period pedestrian lighting and street trees. The City will be investing an additional \$527,891 in the infrastructure project. Commencement of the CDBG infrastructure project and is anticipated for spring of 2005.

The City's North Industrial Park, established in the early 1970s, is nearly full, one lot remaining. In an attempt to provide additional sites for light industrial growth, the City, in conjunction and partnership with Target Alpena, has developed a new business enterprise park for light manufacturing and commercial ventures. This new park has been named the "Commerce Industrial Park", has 15 lots available for development, and is located in a state approved tax-free renaissance zone. This new development also included the construction of Commerce Drive, which reduced the amount of truck traffic through the residential neighborhoods on the City's North Side and Target Drive within the park.

The City recently completed a 4 million-dollar contract to extend sanitary sewer service to the Air National Guard's Alpena Combat Readiness Training Center west of the City. The sewer main extension runs through Alpena Township, Wilson Township, and Maple Ridge Township before terminating at the base. The City has entered into agreements with the respective townships allowing their residents to utilize this new sewer main, a benefit for the entire Alpena community. Aesthetic improvements are continuing at the Water Recycling Plant.

The City of Alpena in partnership with Alpena, Presque Isle and Grand Traverse Counties and the Cities of Onaway, Rogers City and Traverse City was successful in its application for the establishment of the Northern Tier Renaissance Zone. Four of the ten approved sub-zones are located within the City of Alpena. Renaissance Zone designation provides major tax incentives to promote new and expanding economic development within each sub-zone. Eligible businesses, property owners and residents within the Renaissance Zone are exempt from State single business, personal income, local property (does not include debt retirement and special assessments) and education taxes for the duration of the Zone (15 years commencing January 1, 2000). A request by the City to extend the termination date for the Oxbow Park and Armory sub-zones through 2017 was approved by the MEDC. Additionally, a modification of the boundaries of the Armory sub-zone was also approved.

The four sub-zones located within the City are Commerce Industrial Park, Oxbow Park, the Southwest Residential Site and the National Guard Armory. Commerce Industrial Park contains fifteen 1-acre lots targeting new and expanding small businesses. Construction of the industrial park was completed in Spring 2001 and the final plat approved by the State the following summer. Lots are currently available

for sale and development through Target Alpena. Oxbow Park, located on the City's northwest side, contains approximately 40 acres. The selected developer, Walden Properties LLC envisions a mixed-use development based on the neo-traditional new urbanism model reflective of our cities and small towns of the first half of the 20th century. "Oxbow Village" will contain approximately 130 residential units apartments and condominium units over retail uses. A village core featuring a town square with mixed retail and office uses with residences on the top floor is a key feature. A small office cluster is proposed at the south end of the site. Various site amenities include an extension of the City's bi-path system, park-like common areas, a pond, and clock tower. Total project costs are estimated in excess of \$50 million. The MDEQ completed environmental and geo-technical testing at the site with the report delivered to the City and Walden in March 2002. Following a review of the report by Walden negotiations were intensified to complete a development/purchase agreement for the property. This was completed in August 2002. Since then the MDEQ has approved Walden's Due Care Plan for the property. General site clearing occurred in late 2003. Site construction (utilities and streets) commenced in fall 2004 with construction of buildings in two major developments in the project commencing in spring 2005. To assist the project, the City applied for and received a \$1.4 million CDBG grant from the Michigan Economic Development Corporation (MEDC) for off-site infrastructure improvements (streets, water, storm sewer) necessary to support the project. All improvements were installed in 2004 except for a water main extension that will be constructed in spring 2005. The Southwest Residential Site is a triangular parcel containing approximately 15 acres located on the north side of Grant Street west of the D&M Railroad tracks. With 60% of the site covered by wetlands any development will require clustering of buildings. The City has entered into a one-year option agreement with a developer who intends to develop senior independent living housing on the site. A market study will be completed during the term of the option to determine the feasibility of such a development. If positive the developer will secure the required funding and acquire the property. The National Guard Armory Building on Water Street is still presently owned by the State of Michigan, which has entered into a purchase agreement with a developer to convert the building into twenty-four (24) affordable housing units. Issues regarding the feasibility of preserving this historic building have put this project on hold for the near term.

The City has very recently completed the assembly of land along U.S. 23 North across the road from the North Industrial Park for future industrial and commercial development. The City purchased approximately 100 acres of land. The City sold a portion of the property to Alpena Village for development of a retirement community and will entertain other proposals it considers consistent with its vision for the site. The purchase of this land by the City will provide unique opportunities to enhance its economic base and attract new industry and business to the City.

In July 2003, the City received a second MSHDA Rental Rehabilitation Grant in the amount of \$300,000 (plus \$33,300 in administration costs). At least twenty (20) rental units will be rehabbed over the two-year grant term. The goal of the program is the provision of safe and affordable housing for low and moderate-income families. Up to \$14,999 is provided by MSHDA for the rehabilitation of an individual rental dwelling unit with a minimum 25% cash match to be provided by the landlord. The MSHDA funding is in the form of a "forgivable loan or mortgage", which is released by the City following a 5-year "affordability period" during which the rehabilitated unit must be rented to low or moderate income households and rents capped at levels prescribed by MSHDA. To date a total of fourteen (14) rental units have been rehabbed with the balance to be completed by the April 2005 grant termination date.

In addition, the City of Alpena and Alpena County are in discussions to formulate a City/County economic development partnership. The partnership would involve the hiring of an economic development manager and the development of a program to more aggressively work with existing businesses and to recruit new businesses.

INTRODUCTION

The City of Alpena conducted an in-depth visioning session that involved extensive input from citizens and the city staff in 1998. The Alpena City Council used that information as well as insights from analyzing current and future trends, assumptions, opportunities, and potential threats that would influence the vitality of the community to envision a collective desired future. With examination of all the data, the Council established long-term directions and short-term goals in Major Impact Areas.

Committed to continuous improvement, the Alpena City Council and City staff conducted a planning session in September 2002 to revisit the vision and review the status of the goals to purposefully revise and update them (reviewed annually since 1988 and biennially since 1998). Specific intent was focused on the Major Impact Areas, which reflect key aspects of the community's daily life. Each Impact Area is cooperatively maintained or enhanced to achieve the quality of life desired for citizens, their children, grandchildren, and great-grandchildren.

The spirit of cooperation, collaboration, and commitment to community excellence remain a vital part of the continuous Visioning process in the City of Alpena.

VISION

Working together, the community of Alpena
will become a premier choice as a place to live, work, and vacation.
Residents will recognize the community's continued dedication
to all areas affecting the quality of life.
The community will continue to be committed to excellence
in maintaining its "TREASURES":

- ♦ a friendly town with a safe environment;
 - ♦ good place to raise a family;
- ♦ enjoyment of natural resources;
 - ♦ preservation of traditions;
- ♦ recreation and cultural experiences;
 - ♦ employment opportunities.

The following is a description of current allocated efforts and resources in each of the Major Impact Areas as well as priority goals and corresponding objectives collaboratively generated by the Alpena City Council and the Alpena City staff, with input from the Chamber of Commerce, Convention and Visitors Bureau, Target Alpena, Downtown Development Authority, and citizens.

I. HOUSING

The City's Comprehensive Plan was completed in September 1998 and responds to the changing population of Alpena, including the increasing percentage of senior citizens. The City Council and City staff carefully reviewed and took into consideration the Comprehensive Plan to optimize and align City efforts and resources.

The Comprehensive Plan includes areas designated for "Planned Development" which would permit mixed-use developments including a variety of housing types. These could be developed individually or intermixed to meet the market demands of the community.

The following housing goals have a concentrated focus on continuous improvements in neighborhoods and the housing stock in the City, aligned with the Comprehensive Plan:

- A. *Preserve and enhance existing housing and neighborhood character.*
 - 1. Continue promotion of existing tax incentives and monetary awards for residential rehabilitation
 - a. Implement Neighborhood Enterprise Zone program
 - b. Expand the existing Community Pride program to include rental properties and commercial office upgrades

2. Continue to enforce property and maintenance codes
 3. Continue to improve the quality of residential rental units
 - a. Monitor and evaluate the Rental Registration program
 - b. Investigate the feasibility of a mandatory rental inspection program
 - c. Continue and expand the Michigan State Housing Development Authority (MSHDA) Rental Rehabilitation program
 4. Support continuation of the historic study committee to determine the feasibility of:
 - a. Creating an historic district(s) and/or designating single-site historic landmarks
 - b. Establishing a set of historical architecture guidelines to promote quality and historically accurate restorations
- B. *Diversify the housing stock in the City.*
1. Explore senior housing opportunities and demands in future years
 2. Expand on community pride program by including additional categories such as historic renovations, rental properties, and other categories
 3. Encourage appropriate development of riverfront area for quality housing
 4. Encourage further development of downtown housing
 5. Encourage more multiple-family residential developments

II. INFRASTRUCTURE

Water, Sewer, and Storm Sewer Services

Providing residents with good, clean water at reasonable rates is a priority of the City. The water filtration facility has been in consistent compliance with all requirements of the Safe Drinking Water Act and State of Michigan Drinking Water Regulations. Utility management conducted a water and sewer rate study in 2000. The survey showed that the rates charged by Alpena were the third lowest out of the thirty utilities that were polled.

Efforts to improve the aesthetics of the Water Recycling Plant have been very successful. An air collection and scrubbing system was installed to control the migration of offensive odors to the boat harbor and downtown areas. The odor treatment units have been enclosed within a building, and a screening wall has been constructed to provide a visual barrier between the plant and the floating docks at the boat harbor. Completion of the utility administrative office has enhanced the appearance of the plant and improved customer service by providing a drive-through window and night depository box. The City received recognition for these improvements from the Michigan Municipal League. In September 2002, the plant received an award for Superior Innovation for its submittal "Making the Alpena Water Recycling Plant a Good Neighbor."

Negotiations with Alpena Township are continuing, and an emphasis has been placed on extension of the rate-setting formula and master agreement for the best interest of both the City and Township. The sewer main extension to the Alpena Combat Readiness Training Center (ACRTC) was completed in 2001, and all on-base improvements defined as Phase II of the project became operational in 2002.

The following goals are focused on continuous improvement:

- A. *Continue to provide water and sewer infrastructure that meets all needs.*

1. Inventory and computer map all utility infrastructure presently in place
2. Investigate the impact if the City of Alpena were to provide water to other townships
3. Support a Thunder Bay River regional watershed plan
4. Develop best management practices plan and public information/education program regarding storm water management
5. Promote consistent storm water and drainage management practices among all affected units of government
6. Evaluate existing sewer and storm water capacity capabilities
7. Implement the 10-point plan regarding sewer backups and flooding
8. Contract with Alpena Combat Readiness Training Center (ACRTC) for contractual operation of its on-base water and sewer systems
9. Implement a mercury minimization public education effort for wastewater discharges
10. Implement a public education effort on drinking water protection
11. Consider a revenue bond issue, participation in the state's Clean Water Bonding Program, or rate increases to fund sewer system improvements
12. Encourage or require underground utilities (electric, telephone, cable) for all new development and all reconstruction

Transportation Services

City Council has taken an aggressive, proactive approach to improving the overall condition of streets within the municipal system. Funds are committed annually to perform appropriate upgrades to street segments. This could be from chip sealing to total street reconstruction. City Council is also actively pursuing all grant opportunities to maximize local funding.

City Council has taken the lead in providing non-motorized transportation to the community with plans to interlink all parks and recreation areas. The City has actively participated in intergovernmental activities to bolster and improve transportation both within the City and regionally.

The City continues to work with Dial-A-Ride, Thunder Bay Transportation, and Regional Medical Ride to provide transportation services in the most cost-effective, customer-oriented manner.

Recently, there's been a lot of activity in the transportation arena. The focused goals to continue the improvement of the transportation system of Alpena are:

- B. *Promote a transportation system that meets the full range of transit needs of the community, now and into the future.*
 1. Lobby MDOT for more passing lanes and 4-lane segments on US-23 and M-32.
 2. Complete the pedestrian/bi-path linkage to all City parks and waterfront
 - a. Determine missing segments and associated costs such as north side, State Avenue, Bagley Street
 - b. Determine funding sources

3. Continue to support the Convention and Visitors Bureau efforts to improve the snowmobile trails and linkage
4. Improve the condition of the City streets
 - a. Determine costs associated with improving City streets
5. Support development of a routing plan for a bypass from US 23 south to US 23 north
6. Investigate feasibility of summertime fixed route specialized public transportation service (trolley) for festivals and special events
7. Complete a City-wide traffic flow and street plan
8. Develop street lighting/pedestrian lighting plans for City streets and various neighborhoods

City-Owned Facilities

C. Develop a long-term City-owned facilities plan.

1. Evaluate options for a Department of Public Works facility, considering renovation of existing facilities vs. the construction of a new facility

III. RECREATION/CULTURAL OPPORTUNITIES

The development of the Thunder Bay Recreation Complex on Woodward Avenue is progressing with the completion of the Thunder Bay Recreation Center. The City has committed over \$600,000 from its General Fund over 11 years in support of M-PAC's funding efforts to construct the Northern Lights Arena, inasmuch as the Council has resolved to demolish Mich-e-ke-wis Ice Arena. This will open in the winter of 2003. A soccer complex has been constructed north of the Recreation Center. Additional recreational facilities are in the planning stage including baseball fields and a BMX track.

A county-wide recreational commission has been established and is now operational.

Riverside Skate Park has been constructed and is operational for all age and skill levels. The City encourages expanded use of the skatepark through events such as the X-Fest. Additional improvements have been made to the Water Tower Park area. A Mini Skate Park has been added at Mich-e-ke-wis Park.

The Little League Association has added ball fields adjacent to McRae Park.

The City continues to encourage further use of its riverfront by supporting events such as Riverfest, Tall Ships Festival, etc.

The City bi-path system continues to be developed. The City continues to apply for funding to complete development of and to upgrade facilities at City parks along both the Thunder Bay River and the Lake Huron shoreline. As these are completed, an integrated system of waterfront parks and pathways will link a majority of the City. The Breakwall Walkway Extension Project has been completed.

City-owned Bay View Park has been developed to maximize availability and use of recreational facilities. Installation of pedestrian lighting and walkways has been completed.

Considerable effort is currently being invested in this area, and the following goals will continue the work in recreation/cultural opportunities:

- A. *Expand in-City winter recreation opportunities.*
- B. *Improve Bi-Path for year-around use.*
 - 1. Continue to pursue Railroad Abandonment/Rails to Trails within the City limits and explore potential uses of abandoned track
 - 2. Review current regulations governing this activity
 - 3. Work with established advocacy groups regarding potential and uses
- C. *Implement Phase Three of River plan. (Roadside Park/Island Park/Wildlife "Sanctuary")*
 - 1. Support the implementation of the proposed Environmental Interpretive Center plans
- D. *Support the development of the Thunder Bay National Marine Sanctuary and Underwater Preserve.*
- E. *Support development of the Thunder Bay Recreation Complex.*
 - 1. Continue to have City representation on the Alpena Area Recreation Commission
 - 2. Consider resolutions of support for grant funding for facility development
 - 3. Consider fair-share funding as match for facility development
- F. *Continue support for development and expansion of parks.*
 - 1. Actively pursue acquisition opportunities for waterfront properties
 - 2. Continue to budget for waterfront park expansion, improvement, maintenance, and beautification
 - 3. Maintain grounds, playground equipment, and other amenities for the public enjoyment
 - 4. Continue policy of opening views of waterfront to emphasize Alpena as a water-based community
 - 5. Irrigate all City parks
 - 6. Acquire residences on State Avenue to create an open area from State Avenue to the Band Shell
 - 7. Make the City marina area a showcase for the community and Northeast Michigan
 - 8. Replace existing playground equipment with modern, up-to-date play structures with Starlite Beach being the first priority
 - 9. Install an aesthetic, sitting wall to separate the beach area from the park area at Starlite Beach and Thomson Park which would act as a retaining wall for shifting beach sand
 - 10. Develop lighting plans and themes for City parks
 - 11. Investigate potential of winter tube and sled park
 - 12. Upgrade tennis courts at Bay View Park

IV. ENVIRONMENTAL ISSUES

The City continues its commitment to comply with all federal and state environmental standards. The Alpena Water Recycling Plant has been in substantial compliance with all discharge limitations, and the Water Filtration Plant has also been in consistent compliance with all regulatory requirements.

NEMCOG and local units of government (City, County, and Townships) are working together to implement a solid-waste management plan that would encompass surrounding counties as well. Once implemented, it will also include a recycling program that will significantly reduce the total volume of refuse presently being disposed of in the area landfills. The City is also an active partner in the County's Air and Water Quality Committee, which is addressing a number of environmental issues.

The following goals assist in the forward motion of environmental issues:

- A. *Continue to improve air and water quality.*
 - 1. Explore recycling feasibility and implementation
 - 2. Continue participation in ongoing air and water quality issues based on defined, acceptable standards
 - 3. Continue to investigate solid-waste options
 - 4. Continue an aggressive tree planting program
 - 5. Control and reduce presence of odors in the City
 - 6. Encourage reuse of CKD storage areas along Thunder Bay
 - 7. Pursue grants to dredge CKD that has entered the bay
 - 8. Investigate environmental issues of City-wide properties – Brownfield Redevelopment Plan
 - 9. Investigate methods of more cost-effective and efficient garbage collection
 - 10. Re-establish elm trees in the City of Alpena by using the new disease-resistant hybrid
 - 11. Investigate ways to eliminate seasonal, organic beach deposit.
 - a. Work with Earth Tech and the private sector regarding beach cleanup.

V. ECONOMIC DEVELOPMENT and TOURISM

Economic Development and Tourism

The City has worked with private companies and Target Alpena to facilitate infrastructure improvements to support and spur economic development within the City. Examples of recently completed projects include Commerce Industrial Park and improvements to the North Industrial Park. Funding from the Michigan Economic Development Corporation played a significant role in both projects. Target Alpena has been charged with the responsibility of selling the lots it owns in the new Commerce Industrial Park to create jobs for the community. To assist Target Alpena, the City has designated Commerce Industrial Park as a Renaissance Zone, which provides significant tax benefits to purchasers/developers.

City staff continues working with developers for the industrial reuse of the former Fletcher Paper Company Plant site. After a significant amount of effort with the proposed Alpena Paper Company Project, the principals of Alpena Paper Company decided not to proceed with the project. The City is now working with Alpena Marc, Incorporated on its redevelopment plans for the former Fletcher Paper Company site. The Michigan Economic Development Corporation has indicated it would assist with infrastructure improvements for the industrial reuse of this property. Additionally, the City has transferred ownership of Oxbow Park, a former City Landfill Site and a designated Renaissance Zone, to Walden Properties. Walden Properties plans to redevelop this Brownfield into a mixed-use development called Oxbow Village. The Michigan Economic Development Corporation has committed \$1.4 million toward needed infrastructure improvements required for the Oxbow Village project.

The City continues to work closely with local businesses on a wide range of issues including zoning, building codes, tax abatements, etc., to ensure that local economic development can take place in a timely manner without infringing on our residential neighborhoods.

The City has partnered with the Downtown Development Authority and the Michigan Economic Development Corporation to fund a market analysis of the downtown and adjacent commercial areas on Chisholm Street and North Second Avenue. The market analysis will provide guidance to the City and the Downtown Development Authority in the redevelopment of our older commercial areas.

The City and the State of Michigan designated the former National Guard Armory Building in Alpena as a Renaissance Zone. The City continues to work with the State of Michigan in its plans for the sale and reuse of this important riverfront property. The former National Guard Armory Garage Building will be deeded to the City by the State of Michigan. The City will be exploring a number of economic uses for this property including the development of a U.S. Coast Guard station facility, a visitors center for the Thunder Bay National Marine Sanctuary, or other economic uses. The City recently purchased approximately 100 acres of land on U.S. 23 North for various purposes including economic development, public uses, as well as for road improvements. The City has entered into a sales agreement with Alpena Village to sell up to 30 acres of land for the development of a retirement community. The City and Alpena Village will be working cooperatively on the needed infrastructure improvements to move this project forward.

The City is continuing to upgrade its waterfront parks, most notably the marina complex and the Starlite and Mich-e-ke-wis Park areas to provide additional amenities and infrastructure for special events and park's visitors. Improvements to the City's award winning bike-path system continue to be a high priority.

A renewed emphasis on tourism advertising and marketing will be a priority.

To continue growth in economic development and tourism, the City will focus on the following:

- A. *Promote diversified economic base.*
 - 1. Continue to support Target Alpena in its economic development efforts, especially related to developing Commerce Industrial Park
 - 2. Continue to support the Convention and Visitors Bureau efforts to increase tourism, including allocation of additional resources for tourism marketing and advertising by the private sector and governmental units
 - a. Investigate a public/private program to increase funding for tourism and community promotion; as an example, for each new dollar raised by the private sector, governmental units would consider a match
 - 3. Continue to support community events such as Brown Trout, Art on the Bay, Ramblin' Rods Car Show, Lighthouse Festival, Sidewalk Sales, X-Fest, Riverfest, Tall Ships Festival, etc.
 - 4. Continue expansion of infrastructure and services to support future industrial development

5. Expand efforts for recruitment and expansion of family-sustaining jobs - including allocation of additional resources for business recruitment, marketing, and advertising
6. Support Downtown Development Authority efforts in development of new businesses downtown
7. Expand efforts to fill the new Commerce Industrial Park
8. Pursue redevelopment of obsolete commercial properties throughout the City
9. Work with Lafarge Corporation on Commerce Drive and North Second Avenue for new industrial development corridors
10. Reevaluate criteria for granting Act 198 Industrial Tax Abatements
11. Promote the Renaissance Zones and consider expansion of the zones and extending the timeframe of the zones
12. Acquire property for new development
13. Investigate the possibility of a State Park in the immediate City area, possibly in conjunction with the Thunder Bay National Marine Sanctuary and Underwater Preserve

Destination Alpena

Community groups such as the Convention and Visitors Bureau, Target Alpena, and the Chamber of Commerce continue to explore possible “magnet facilities” or final destination attractions which may be encouraged to develop in the city. The intent is to identify potential destination attractions involving both public and private financial participation. It is believed that tourism must have a more important economic development roll in Alpena’s overall economic base.

To continue the work in progress with “Destination Alpena,” the City will:

B. *Work toward a destination facility.*

1. Support redevelopment of the National Guard Armory
2. Explore acquiring Alpena Oil Company property
3. Cooperate with private sector to establish a waterfront hotel or resort complex
4. Support and encourage an overnight stop for a “Great Lakes Cruiseline”
5. Continue to support those existing services that are attracting people to the area such as the National Marine Sanctuary and Underwater Preserve, the festivals, Alpena General Hospital, senior housing, World Center for Concrete Technology, Alpena Community College
6. Continue to support development of the Northern Lights Arena.

VI. CENTRAL BUSINESS DISTRICT

The Downtown Development Authority continues its efforts through the tenets of the Nation's "Main Street" program, which focuses on the historic nature of the downtown. Many of the goals are implemented through the "Main Street" four committee structure, supported by City staff.

Many downtown buildings have been renovated consistent with the historic nature of the downtown. The City and the DDA continue to pursue methods to encourage and support residential development on the second and third floors.

The Downtown Development Authority, with support from the City, has received a grant to do a market analysis of the Downtown district and the adjacent impact zones. This will provide current, relevant data to help the DDA and the City determine a program of work to include wayfinding signage, business recruitment, needed capital improvements, and any other issues identified by this analysis as important to the continued downtown revitalization efforts.

The City continues to support the efforts of a private developer and the Downtown Development Authority to facilitate the redevelopment of the vacant land at the corner of Third and River Streets. The City and the DDA will also continue to pursue grants to improve the streetscape along the Washington Avenue entrance into Downtown.

The City continues to work with the landscaping committee of the DDA to improve the overall appearance of the downtown district. The City also continues to support the Christmas decorations in the Downtown Area, and will work with the Downtown Development Authority and downtown businesses to improve snow removal in the downtown area. Additionally, the banner program has been expanded, and includes the impact zones adjacent to the specific downtown district.

To continue to maximize efforts invested in the central business district, the City will:

- A. *Continue to support revitalization efforts.*
 1. Support Downtown Development Authority initiatives, such as:
 - a. Historic restoration and preservation
 - b. Historical pedestrian lighting
 - c. Continue involvement with new "Main Street" committees
 - d. Encourage attraction of young citizens and families to the downtown area
 2. Investigate resources to make funds available for property owners to renovate storefronts to preserve historic-like character
 3. Encourage residential development on the second and third floors
 - a. Implement incentives and grant sources to remodel and improve upper level apartments
 - b. Provide year-around parking for residents
 - c. Encourage development of vacant property.
 4. Continue development from Chisholm Street Corridor to the riverfront
 5. Support efforts for business recruitment
 - a. Provide inventory of vacant properties through the Downtown Development Authority and City of Alpena websites
 6. Extend downtown-type amenities on Chisholm Street to George Washington Bridge
 7. Continue to develop riverwalk

8. Investigate feasibility and cost of a parking structure
9. Support and encourage retention of existing services such as the Senior Citizens Center, U. S. Coast Guard, Fish & Wildlife Services, IRS, Social Security Administration, etc.
10. Explore redevelopment of existing parking lots
11. Support marketing and recruiting partnerships for small businesses
12. Work with private partnerships on the redevelopment of the Harborside Mall block.
13. Encourage downtown location of National Marine Sanctuary and Underwater Preserve Visitors and Interpretive Center
14. Encourage downtown location of a U.S. Coast Guard Station
15. Determine if the Neighborhood Enterprise Zone Act or Obsolete Property Act should be used in the downtown and adjacent commercial areas to spur development and business recruitment

VII. INTERGOVERNMENTAL RELATIONS

The City continues to reach out to other governmental units to develop greater cooperation.

The Alpena Area Recreation Commission is operational. A Recycling Authority has been formed and is operational. Quarterly intergovernmental meetings are being held through the Intergovernmental Council. Subcommittees have been formed on various issues and are meeting as required and reporting back to the Intergovernmental Council. The Intergovernmental Council's responsibilities include communications, roads, drainage, air and water quality, public safety, and economic development.

The Northeast Michigan Recycling Authority Alliance involving both Alpena and Montmorency Counties has been formed and has begun limited operations. A household hazardous waste collection program is operational and the Authority is looking at the feasibility of opening a transfer station operation and is trying to determine a long-term funding source to finance an expanded recycling program in both Alpena and Montmorency Counties.

To focus on the continuous improvement of intergovernmental relations, the City will:

- A. *Improve government services through intergovernmental relations.*
 1. Continue communications with governing bodies regarding agenda and items affecting other jurisdictions
 2. Work with the Road Commission to achieve bi-path improvements along perimeter roads
 - a. Work together to address the Bagley Street bi-path issue
 3. Work with Alpena County to keep the jail facility in the City limits
 4. Negotiate a long-term ambulance agreement with Alpena County
 5. Negotiate a long-term water and sewer rate agreement with Alpena Township
 6. Work toward a permanent solution to animal control and impoundment
 7. Accelerate dialog regarding land use regulations and access management with Township and County

VIII. CITY OPERATIONS

City Departments and Staffing

The City's most important resource is its employees. These are the people who provide the services that our residents need and deserve. To accomplish our mission, the City places significant emphasis on training and retaining its employees. Each Department Head is required to annually prepare a training plan for their department employees. Their training plans focus on skills development, customer service training, technology training, etc.

The City has an award-winning web page, www.alpena.mi.us. All departments have web pages, and they are maintained in an up-to-date manner. The City will continue to upgrade and provide additional resources through its home page and the Internet.

The Building Official's office has purchased computer software for automating the permitting, petition application, and code enforcement functions. The system simplifies many of the existing procedures and is the beginning of an ongoing up-to-date property file, greatly simplifying the record keeping process. This enables the department to provide faster and more effective service to the public and improves coordination among the Engineering, Planning, and Building Official's offices in the issuance of permits.

A suggestion box has been placed outside of the City Assessor/Building Official's service counter for customer comments and input that may improve service. Additionally, there is a suggestion box at the Utility Office. All City departments utilize surveys to gauge the satisfaction of residents for City services. The surveys assist the staff and City Council in improving services.

The Engineering Department now operates two CAD stations with all design services targeted to be done utilizing in-house staff.

The Department of Public Works continues to benchmark its services. The City is outsourcing its fuel needs for all City vehicles. In an effort to improve the operation of the department, customer service surveys were sent to residents in order to gauge this department's effectiveness in providing public services. Surveys were conducted for the following services: cemetery, marina, park system, snowplowing, brush and bagged leaf pickup. Results indicated that this department was performing at a high level. The Department of Public Works is continuing to seek environmentally friendly products for public usage.

The Fire Department is cooperating with the state and federal governments by serving as a member of the regional response team for weapons of mass destruction incidents. Such designation provides the department with specialized equipment and training to respond to incidents on a local and regional basis.

To continue to ensure quality within City departments and staffing, the City will:

- A. *Provide staffing levels commensurate with services provided.*
 - 1. Continue to provide education programs for staff, council members, and members of boards
 - 2. Continue the wellness program for current City employees and investigate a program for retirees

Fiscal Responsibility

The City has kept adequate fund balance reserves and is in excellent financial condition per the annual audit process. Alpena received the Certificate of Financial Achievement Award for excellence in governmental accounting and financial reporting for ten consecutive years.

A budget stabilization "rainy day" fund and a Department of Public Works Construction Fund have been established. A Building Authority has been established to fund special projects.

As a phase 2 municipality, (total annual revenues of \$10 million or more, but less than 100 million) the City has begun implementing GASB 34 for the 2002-2003 fiscal year.

- B. *To ensure continued excellence in fiscal responsibility, the City will continue to inform the general public on the financial status of the City.*
 - 1. Continue to use the standards of the Certificate of Financial Achievement Award as best practices for the City
 - 2. Continue to maintain a general fund balanced budget
 - 3. Make annual contributions to the rainy day fund as budget allows
 - 4. Investigate establishment of a sewer backup or self-insured fund
 - 5. Investigate the feasibility of paying property taxes and other bills electronically
 - 6. Investigate changes to the purchasing policy to permit the greater use of electronic commerce
 - 7. Investigate establishment of a property purchase fund or a designated fund balance

IX. COMMUNICATIONS

Continuous efforts have been invested in improving the communications between the City and its "customers" (citizens). The City provides a form in its newsletter to request information or to express a concern to the City Manager's office. The City also makes the e-mail address of City employees available for electronic requests for information and services.

Customer satisfaction surveys are being implemented for citizens involving the sidewalk program, City Marina, zoning process, water and sewer services, cemetery, snowplowing, maintenance of City parks, and brush and bagged leaf pickup. Results from these surveys are expected to help improve operations. Surveys regarding fire service, police service, and ambulance service will be conducted in the future. The City Clerk/Treasurer/Finance Director's office will also conduct a customer satisfaction survey in the future.

- A. *The City will continue communications between the City and its customers.*
 - 1. Maintain an open atmosphere at all City facilities that encourages citizen input
 - 2. Continue to communicate with the public so they understand the issues that are before City Council
 - 3. Continue City representation on community boards, advisory groups, and intergovernmental groups to actively demonstrate City involvement in community issues
 - 4. Investigate feasibility of internet subscription to City news releases, newsletters, etc.
 - 5. Provide information and forms on the City of Alpena website
 - 6. Provide website links or information regarding the history of our City. This may include information on historic buildings.
 - 7. Make assessment record data available on the City web site

X. PUBLIC SAFETY

Police Services

The City's support of DARE and HUNT programs continues. The Police Department has expanded the role of the DARE officer to include working as an elementary school liaison officer. The City annually supports the efforts of the Huron Undercover Narcotics Team (HUNT). The City has been awarded a school liaison officer grant for the fifth year to hire a police officer for the high school.

The Police Department has a K-9 unit for the community. Start-up funding was provided by the Zonta Club of Alpena. The K-9 is a cross-trained unit to include narcotics detection along with tracking, building searches, area searches, etc

To continue the concentrated effort in drug education and enforcement, the City will:

A. *Continue to support community based efforts in drug education, prevention, and enforcement.*

1. Continue to support the DARE program
 - a. Budget a position with the Police Department
 - b. Designate a Council liaison to the DARE board
 - c. Designate a City Police Department representative to the DARE board
 - d. Consider joint purchasing with the City/County DARE programs
 - e. Continue public service relationship through the DARE officer.
2. Continue the School Liaison Program
 - a. Accept grant awards for School Liaison positions
 - b. Partner with schools for local match
 - c. Assign officers to Alpena High School and City elementary school
 - d. Assign appropriate City representation to the School Liaison Partnership Advisory Team
3. Continue to support the HUNT Team
 - a. Continue annual fair share financial contribution
 - b. Assign Council liaison to HUNT Advisory Board
 - c. Assign Police Department representative to HUNT Advisory Board

B. *Continue to provide a high quality Police Department*

1. Investigate the staffing needs to ensure the department has the personnel resources necessary to meet the Council's vision of a "friendly town with a safe environment" and "good place to raise a family"

Fire/Ambulance Services

C. *Continue to provide a high quality Fire Department*

1. Investigate the staffing needs to ensure the department has the personnel resources necessary to meet the Council's vision of a "friendly town with a safe environment" and "good place to raise a family"
2. Initiate discussions with Alpena Township regarding a Fire District

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognized that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls. In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, special revenue funds and debt service funds are included in the annual appropriated budget. Project-length financial plans are adopted for the capital projects funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within an individual fund.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Debt Administration. At June 30, 2004, the City had five debt issues outstanding. These issues included \$1,685,000 of general obligation bonds, \$915,000 of sanitary sewage bonds which are contractual obligations with Alpena County, \$380,000 of Building Authority Bonds, \$3,500,000 of water supply and sewage disposal system revenue bonds, and one bank loan for \$445,953. Under the current City Charter, the City general obligation bonded debt issuances are subject to a legal limitation based on eight percent of the City's assessed value of real and personal property. As of June 30, 2004, the City's total obligation debt of \$6,925,953 was well below the legal limit of \$19,468,959.

Cash Management. In accordance with the cash management policy of the City, cash temporarily idle during the year was invested in those investments authorized by law and included certificates of deposit, demand savings accounts and securities sold by the United States government or its agencies and State approved municipal trust funds. The City invests all funds' cash, with maturities planned to coincide with cash needs utilizing the pooled cash concept whenever possible.

The Pension Trust Fund's portfolio also includes corporate bonds and stocks. The Pension Trust Fund achieved a yield rate of 2.10% for the same period.

Risk Management. For the year ended June 30, 2004, the City participated with St. Paul Property and Liability Insurance with Arthur J. Gallagher & Company of Michigan serving as our representative, for liability and property insurance coverages. The City's liability coverage amount remained at \$10,000,000, the same as the prior fiscal year.

The City's workers' compensation insurance is provided through the Michigan Municipal Worker's Compensation Fund, operated by the Michigan Municipal League.

The City also has a \$1,000,000 liability insurance policy with Great American Insurance Company covering third-party liability and the costs of taking corrective action resulting from releases of pollutants from storage tank systems at the City Marina.

OTHER INFORMATION

Independent Audit. State statutes require an annual audit by independent certified public accountants. The accounting firm of Straley, Ilsley & Lamp P.C. was selected by the City Council. The auditor's report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Alpena for its comprehensive annual financial report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Alpena has received a Certificate of Achievement for the last ten consecutive years (fiscal years ended June 30, 1994 through 2003). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgments. Special recognition must be extended to Julie Krajniak, Deputy Clerk/Treasurer/Finance Director, who assisted with the development of the Comprehensive Annual Financial Report (CAFR) and annual independent audit. We wish to express our appreciation to all members of the City's departments and the accounting and consulting firm of Straley, Ilsley & Lamp P.C. who also contributed to the preparation of the CAFR. We would also like to thank the members of the Alpena City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Alan L. Bakalarski

Alan L. Bakalarski
City Manager

Karen Hebert

Karen Hebert
City Clerk/Treasurer/Finance Director

ADMINISTRATIVE STAFF

Council Appointees

City Manager	Alan L. Bakalarski
City Clerk/Treasurer/Finance Director	Karen Hebert
City Assessor	Jeffery A. Shea
City Attorney	Keith D. Wallace

City Manager Appointees

Assistant City Manager	Eric Cline
City Planner/Administrative Aide	Greg E. Sundin
Engineer	Richard O. Sullenger
Public Safety Director	Thad N. Taylor
Data Processing/Information Systems Director	Chad Repke

II. FINANCIAL SECTION

The Financial Section Contains:

- A. Independent Auditor's Report**
- B. Management Discussion and Analysis**
- C. Basic Financial Statements**
- D. Required Supplementary Information**
- E. Individual Fund Statements**



Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Municipal Council
City of Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Alpena, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Alpena, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Alpena, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements but are supplementary information required accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alpena, Michigan's basic financial statements. The introductory section, combining and individual non-major fund financial statements and statistical tables, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Straley, Ilsley & Lamp P.C.

November 15, 2004

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Alpena, we offer readers of the City of Alpena's financial statements this narrative overview and analysis of the financial activities of the City of Alpena for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 5-24 of this report.

Financial Highlights

- The assets of the City of Alpena exceeded its liabilities at the close of the most recent fiscal year by \$52,091,928 (*net assets*). Of this amount, \$9,696,532 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Alpena's total net assets increased by \$780,141. This was the result of an increase in the net assets of governmental activities of \$336,446 along with an increase in the net assets of business-type activities of \$443,695.
- The City of Alpena provided services of \$10,634,004 in governmental activities and \$3,716,360 of business-type activities for expenses totaling \$14,350,364 during the year ended June 30, 2004.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,019,285 or 24 percent of total general fund expenditures and operating transfers to other funds in comparison to \$2,191,505 at the close of the prior year, a reduction of \$172,220.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Alpena's basic financial statements. The City of Alpena's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Alpena's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Alpena's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Alpena is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Alpena that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Alpena include general government, public safety, public works, highways, streets and lights, and parks and recreation. The business-type activities of the City of Alpena include Water and Sewage and Dial-A-Ride Transportation (DART).

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements include not only the City of Alpena itself (known as the *primary government*), but also two legally separate downtown development authorities and a legally separate economic development corporation for which the City of Alpena is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The City of Alpena Building Authority, although also legally separate, functions for all practical purposes as a department of the City of Alpena, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 39-41 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Alpena, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Alpena can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Alpena maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street, Local Street, and Budget Stabilization funds, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 42-49 of this report.

Proprietary funds. The City of Alpena maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Alpena uses enterprise funds to account for its Water and Sewage funds and for its DART fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Alpena's various functions. The City of Alpena uses internal service funds to account for its fleet of vehicles, its management information systems, and its stores supplies. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewage funds and for and for the DART fund, all of which are considered to be major funds of the City of Alpena. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

The basic proprietary fund financial statements can be found on pages 50-57 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Alpena's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 58-59 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 64-82.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Alpena's progress in funding its obligation to provide pension benefits to its employees. The general and major governmental funds' budget comparisons are also presented. Required supplementary information can be found on pages 83-86 of this report.

Combining and individual fund statements and schedules can be found on pages 87-122 of this report.

A Statistical Section with data reflecting financial, social, and economic trends of the City can be found on pages 123-140 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Alpena, assets exceeded liabilities by \$52,091,928 at the close of the most recent fiscal year.

By far the largest portion of the City of Alpena's net assets \$40,190,954 (77 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Alpena uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Alpena's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF ALPENA'S, Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$9,696,533	\$9,900,624	\$3,316,437	\$3,286,644	\$13,012,970	\$13,187,268
Capital assets	26,957,758	26,713,372	20,176,008	19,958,876	47,133,766	46,672,248
Total assets	36,654,291	36,613,996	23,492,445	23,245,520	60,146,736	59,859,516
Current liabilities	626,884	369,630	107,926	204,696	734,810	574,326
Noncurrent liabilities	3,819,998	4,373,403	3,500,000	3,600,000	7,319,998	7,973,403
Total liabilities	4,446,882	4,743,033	3,607,926	3,804,696	8,054,808	8,547,729
Net assets:						
Invested in capital assets,						
net of related debt	23,557,458	22,839,291	16,633,496	16,314,802	40,190,954	39,154,093
Restricted	1,400,491	1,353,631	803,951	641,243	2,204,442	1,994,874
Unrestricted	7,249,460	7,678,041	2,447,072	2,484,779	9,696,532	10,162,820
Total net assets	\$32,207,409	\$31,870,963	\$19,884,519	\$19,440,824	\$52,091,928	\$51,311,787

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional portion of the City of Alpena's net assets \$2,204,442 (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$9,696,532 (19 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Alpena is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$780,141 during the current year. This was the result of business-type activities ongoing revenues outstripping similar increases in ongoing expenses by \$443,695. Governmental activities, experienced an increase in net assets during the current fiscal year. While property tax revenue was up slightly, the substantial increase in charges for services is what attributed to the increase in revenue over expenses. Ambulance services and sidewalk special assessments were the two main accounts in charges for services that increased.

CITY OF ALPENA'S, Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$3,176,940	\$2,727,519	\$3,220,319	\$3,090,402	\$6,397,259	\$5,817,921
Operating grants and contributions	1,824,269	1,949,597	785,113	621,183	2,609,382	2,570,780
Capital grants and contributions	222,866	-	-	-	222,866	-
General revenues:						
Property taxes	4,238,067	4,191,253	117,017	116,320	4,355,084	4,307,573
Other	1,508,308	1,742,684	37,606	64,309	1,545,914	1,806,993
Transfers	-	-	-	-	-	-
Total revenues	10,970,450	10,611,053	4,160,055	3,892,214	15,130,505	14,503,267
Expenses:						
General government	2,823,709	2,659,715	-	-	2,823,709	2,659,715
Public safety	3,923,500	3,850,500	-	-	3,923,500	3,850,500
Public works	3,060,171	3,139,273	-	-	3,060,171	3,139,273
Parks and recreation	668,947	811,640	-	-	668,947	811,640
Interest on long-term debt	157,677	182,149	-	-	157,677	182,149
Water	-	-	1,265,219	1,289,363	1,265,219	1,289,363
Sewage	-	-	1,715,127	1,675,715	1,715,127	1,675,715
DART	-	-	736,014	752,869	736,014	752,869
Total expenses	10,634,004	10,643,277	3,716,360	3,717,947	14,350,364	14,361,224
Change in net assets	336,446	(32,224)	443,695	174,267	780,141	142,043
Net assets - beginning	31,870,963	31,903,187	19,440,824	19,266,557	51,311,787	51,169,744
Net assets - end	\$32,207,409	\$31,870,963	\$19,884,519	\$19,440,824	\$52,091,928	\$51,311,787

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities. Overall, expenses decreased slightly due to decreased interest on our debt, the completion of capital projects and a conservative approach when filling vacant positions.

Cost of Services - Governmental Activities

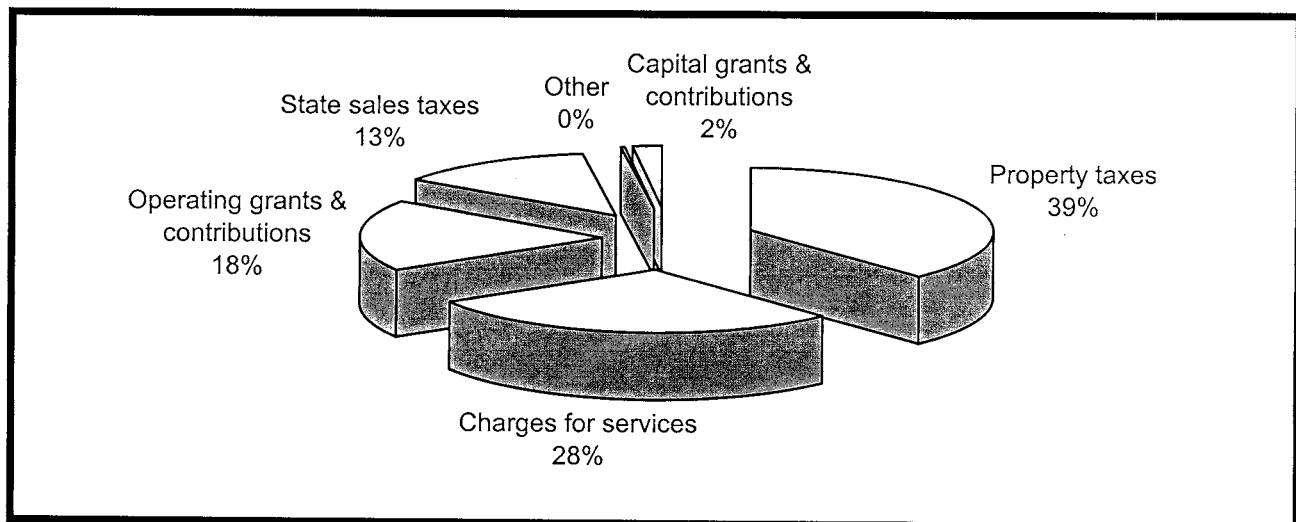
	Total Cost of Services		Program Revenues		Net Cost of Services	
	2004	2003	2004	2003	2004	2003
Functions/Programs:						
General government	\$2,823,709	\$2,659,715	\$1,752,452	\$1,516,857	\$1,071,257	\$1,142,858
Public safety	3,923,500	3,850,500	1,393,871	1,338,872	2,529,629	2,511,628
Public works	3,060,171	3,139,273	1,882,506	1,313,159	1,177,665	1,826,114
Parks and recreation	668,947	811,640	195,246	508,228	473,701	303,412
Interest on long-term debt	157,677	182,149	-	-	157,677	182,149
Total expenses	<u>\$10,634,004</u>	<u>\$10,643,277</u>	<u>\$5,224,075</u>	<u>\$4,677,116</u>	<u>\$5,409,929</u>	<u>\$5,966,161</u>

The total cost of services for General Government decreased slightly due to continual cost containment measures such as reducing the training budget by 25%, and a hiring freeze affecting two positions in the Fire Department, one position each in the Police Department and Public Works Department, and one part-time position at City Hall.

The total cost of services increased for General government due to the increased activity of the Rental Rehabilitation program and liability and property insurance. Public Safety increased due to overtime attributed to unfilled positions and the increase of liability and property insurance. Building Inspection increased because of the Rental Inspector's program. The Public Works cost increases were mainly due to storm sewer maintenance and the sidewalk special assessment program.

The total cost of services for Parks and Recreation and Highway, Streets, and Lights decreased due to completed capital asset projects.

Revenues by Source - Governmental Activities



City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUES

Though property taxes continue to be our largest source of revenue, we had only a minimal increase again this fiscal year. The City can levy up to 17.5 mills within the limits of the Charter, however, due to the Headlee Amendment, and Proposal A, the City has been rolled back to 16.2316 for the 2003-2004 tax season. The total taxable value on all real and personal property amounted to 243,361,99 for the fiscal year 2003-2004. The valuation represents a increase of \$1,873,931 form the preceding year. Total millage for the City of Alpena homestead property was 38.2956 and non-homestead property was 56.2217.

Charges for services increased in 2004 due to ambulance fee increases and the sidewalk special assessment program.

State revenue decreased again and may continue to do so because of the state revenue sharing cuts.

Investment income and rents decreased again due to low interest rates.

The General Fund elected to use \$190,045 from the Budget Stabilization Fund.

Business-type Activities. All three Enterprise Funds are operated under contract by outside private contractors. The Water and Sewage utilities are operated by Earth Tech Operation Services. The operations agreement with Earth Tech was renewed on July 1, 2004, for a 4-year period per the terms of the contract. The new contract continues the current levels of maintenance on the system. Future increases for contractual fees with Earth Tech shall not exceed the annual proposal A rate of inflation increase or 3%, whichever is less.

Responsibility for the Dial-A-Ride Transportation (DART) system operations lies with Prell's Service. Operations are financed through Federal, State, and City operating grants and fare box revenues.

Cost of Services - Business-type activities

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2004	2003	2004	2003	2004	2003
Functions/Programs:						
Water	\$ 1,265,219	\$ 1,289,363	\$ 1,390,283	\$ 1,447,964	\$ (125,064)	\$ (158,601)
Sewage	1,715,127	1,675,715	2,120,638	1,782,532	(405,511)	(106,817)
DART	736,014	752,869	494,511	481,089	241,503	271,780
Total expenses	<u>\$ 3,716,360</u>	<u>\$ 3,717,947</u>	<u>\$ 4,005,432</u>	<u>\$ 3,711,585</u>	<u>\$ (289,072)</u>	<u>\$ 6,362</u>

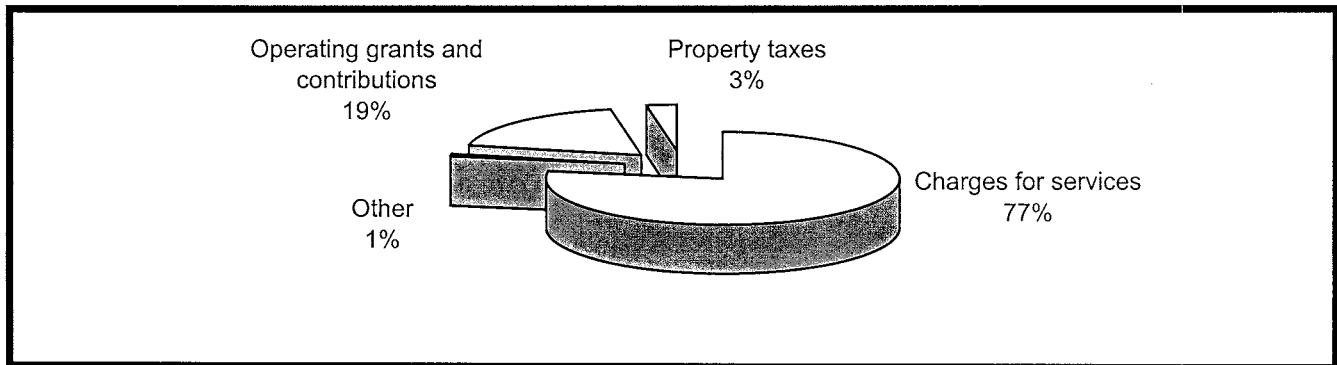
The expenditures in the Water Fund decreased slightly due to cost savings in various accounts and the Sewage Fund increased due to the increased cost for liability insurance and contractual operations. Our contractual operations with Earth Tech increased at the annual Proposal A rate of inflation or 3 percent, whichever is less. The last four-year extension (ending July 1, 2004) with Earth Tech averaged an increase of 3.0 percent.

In the DART Fund a reduction in the specialized services pass-through contract with Thunder Bay Transportation resulted in a decrease in expenses in 2004.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues by Source - Business-type Activities



Program revenue in the Water fund was lower in 2004, due to a decrease in Township flow. Sewer revenues increased due to an increase in flow.

In the DART fund there was a slight increase in revenue due to an increase in federal revenue funds.

Financial Analysis of the Government's Funds

As noted earlier, the City of Alpena uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Alpena's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Alpena's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Alpena's governmental funds reported combined ending fund balances of \$6,062,475, a decrease of \$(370,675) in comparison with the prior year. Approximately 76.9% of this total amount (\$4,661,984) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$16,098), and 2) for future capital outlay (\$1,384,393).

The general fund is the chief operating fund of the City of Alpena. At the end of the current fiscal year, the fund balance of the general fund was \$2,019,285, all of which was unreserved. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represented 23.6% of total general fund expenditures and operating transfers to other funds.

The fund balance of the City of Alpena's General Fund decreased by \$172,220 during the current fiscal year. The decrease is due to the continuing decline of state revenue sharing (\$43,886) and the continuing increase in property insurance medical insurance and cost of living increases for salaries and wages.

The major and local street funds have unreserved fund balances of \$459,009 and \$1,028,853, respectively. This represents funds available for future street maintenance and construction.

The City of Alpena has established a budget stabilization fund to account for funds accumulated as described in Public Act No. 30 of 1978. During fiscal 2004, the City transferred \$190,045 to the general fund to maintain services. This left \$370,000 remaining in unreserved fund balance.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

The debt service funds have a total fund balance of \$16,098, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was minimal (\$18,706). The City of Alpena was able to make additional payments to reduce the balance of the Land Purchase Bank Loan.

The City at the end of the fiscal year had \$1,384,393 in fund balance reserved for future capital outlay in its combined capital project funds.

Proprietary funds. The City of Alpena's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Sewage and DART funds at the end of the year amounted to \$1,518,171, \$782,120, and \$146,781, respectively. The change in net assets for the funds was \$112,411, (\$135,259), (\$14,859), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Alpena's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were (\$362,866), a decrease in appropriations and can be briefly summarized as follows:

- \$ (167,685) in decreases in general government activities
- \$ (44,951) in decreases allocated to public safety
- \$ (7,340) in decreases allocated to public works
- \$ (35,995) in decreases to parks and recreation
- \$ (22,145) in decreases to operating transfers to other funds
- \$ (84,750) in decreases to contingencies

Capital Asset and Debt Administration

Capital assets. The City of Alpena's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$47,133,766 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building and improvements, machinery and equipment and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Over \$330,000 in sidewalk improvements and a drain culvert replacement.
- Approximately \$1,013,000 in infrastructure additions/improvements to City streets.
- Over \$275,000 in Park Improvements, most notably LaMarre Park.
- There was over \$225,000 in capital improvements in the Water Plant for routine purchases such as valves and mains.
- There were approximately \$850,000 of capital costs in the Sewage Treatment plant with almost 40% for the Air Base and 18% for sewer mains.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ALPENA'S, Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Historical cost:						
Land	\$2,883,965	\$3,018,171	\$12	\$12	\$2,883,977	\$3,018,183
Construction in progress	1,423,212	94,455	1,031,621	102,708	2,454,833	197,163
Land improvements	3,454,135	3,453,354	332,902	427,423	3,787,037	3,880,777
Buildings and improvements	7,338,291	7,325,146	4,179,301	4,179,301	11,517,592	11,504,447
Machinery and equipment	6,197,757	6,087,469	2,250,313	2,065,848	8,448,070	8,153,317
Infrastructure	31,036,625	30,735,443	25,091,792	25,120,709	56,128,417	55,856,152
	<u>52,333,985</u>	<u>50,714,038</u>	<u>32,885,941</u>	<u>31,896,001</u>	<u>85,219,926</u>	<u>82,610,039</u>
Accumulated depreciation:						
Land improvements	(926,257)	(838,968)	(60,460)	(47,900)	(986,717)	(886,868)
Buildings and improvements	(3,392,207)	(3,240,134)	(1,296,560)	(1,174,055)	(4,688,767)	(4,414,189)
Machinery and equipment	(4,461,680)	(4,254,161)	(1,390,767)	(1,212,525)	(5,852,447)	(5,466,686)
Infrastructure	<u>(16,596,083)</u>	<u>(15,667,403)</u>	<u>(9,962,146)</u>	<u>(9,502,645)</u>	<u>(26,558,229)</u>	<u>(25,170,048)</u>
	<u>(25,376,227)</u>	<u>(24,000,666)</u>	<u>(12,709,933)</u>	<u>(11,937,125)</u>	<u>(38,086,160)</u>	<u>(35,937,791)</u>
Net Capital Assets	<u>\$26,957,758</u>	<u>\$26,713,372</u>	<u>\$20,176,008</u>	<u>\$19,958,876</u>	<u>\$47,133,766</u>	<u>\$46,672,248</u>

Additional information on the City of Alpena's capital assets can be found in Note 6 on pages 73-74 of this report.

Long-term debt. At the end of the current fiscal year, the City of Alpena had total debt outstanding of \$6,895,073. Of this amount, \$2,600,000 comprises general obligation bond debt backed by the full faith and credit of the government, \$380,000 is building authority bonds and \$388,903, a bank loan secured by land. The remainder of the City of Alpena's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**CITY OF ALPENA'S, Outstanding Debt
Bonds and Loans**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$2,600,000	\$2,955,000	\$-	\$-	\$2,600,000	\$2,955,000
Building authority bonds	380,000	400,000	-	-	380,000	400,000
Land purchase bank loan	388,903	486,494	-	-	388,903	486,494
Installment loan	26,170	91,000	-	-	26,170	91,000
Revenue bonds	-	-	3,500,000	3,600,000	3,500,000	3,600,000
	<u>\$3,395,073</u>	<u>\$3,932,494</u>	<u>\$3,500,000</u>	<u>\$3,600,000</u>	<u>\$6,895,073</u>	<u>\$7,532,494</u>

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ALPENA'S OUTSTANDING DEBT

The City of Alpena's total debt decreased by \$637,421 (8.5 percent) during the current fiscal year.

The City of Alpena and its Water and Sewer Authority both maintain an "AA" rating from Standard & Poor's and Fitch and an "Aa" rating from Moody's for general obligation debt. The revenue bonds of the Water and Sewer Authority have been rated "A" by all three of these rating agencies.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation. The current debt limitation for the City of Alpena is \$19,468,959, which is significantly in excess of the City of Alpena's outstanding general obligation debt.

Additional information on the City of Alpena's long-term debt can be found in Note 8 on pages 75-76 of this report.

Economic Factors and Next Year's Budgets and Rates

- At fiscal year end 2004, the unemployment rate for the City of Alpena was 6.1 percent, which is a decrease from last year's percentage of 7.3. County wide the unemployment rate is 7.2 percent compared to 6.8 percent for the state.
- There has been a continual decline in the State Revenue Sharing. We received \$37,000 less in fiscal year ending 2002, \$183,513 less in fiscal year ending 2003, and \$52,990 less in fiscal year ending 2004. In fiscal year ending 2005, the state is projecting \$1,435,494, which would be \$46,560 than fiscal year ending 2004. If budget projections for this year are correct, the City will have lost a cumulative amount of \$814,244 since fiscal year ending 2002.
- The City is currently in discussions with the County to form an economic development partnership. The goal of the partnership would be to aggressively recruit new business to Alpena as well as to work with existing businesses to ensure their growth and success.
- While the City experienced job and tax revenue losses with the closure of Fletcher Paper and BBI Industries, there are four new development projects that will have a positive impact on Alpena's economy:
 1. Alpena Marc LLC acquired the former Fletcher Paper Mill site for conversion into a mixed-use development consisting of retail, institutional, restaurant, hotel, and limited-specialty manufacturing (brewery & soft drink manufacture). The 6 to 8 year project will cost from \$33 to \$60 million.
 2. Alpena Village acquired approximately 10 acres of City-owned property on US 23 North for development of a retirement community.
 3. Walden Properties LLC acquired Oxbow Park, which is a 40-acre site on the City's northwest side. This site is part of the Northern Tier Renaissance Zone and qualifies owners from State single business, personal income, local property and education taxes for 15 years commencing January 1, 2000). The site will be a mixed-use development with residential units that include condominium units, townhouses, apartments, single family detached and zero lot line homes, as well as mixed retail and office uses. The total project cost is estimated at \$50 million.
 4. Walden Properties LLC intends to construct two 8-story residential structures containing a maximum of 47 condominium units on the edge of the Thunder Bay River in the downtown area. The project, known as Rivers Edge Condominiums has a development cost of between \$12 and \$15 million.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Both the Coast Guard and NOAA have a presence in Alpena. The Coast Guard will be developing a full-time station in Alpena along the Thunder Bay River near Second Avenue. The Thunder Bay National Marine Sanctuary and Underwater Preserve, operated by NOAA, are developing a new site along the Thunder Bay River.

During the current fiscal year, unreserved fund balance in the general fund is estimated to be \$952,586. Per the Municipal Council's direction, the City must maintain a minimum fund balance of 10% of expenses, but strive to increase it to 15%. The final projected fund balance was \$1,611,981 for 2004 but the actual fund balance was \$2,019,285, a difference of \$407,304. This difference in projected and actual is largely due to timing of the completion of capital projects.

With the decrease of state revenue sharing and tax revenues remaining flat, the City was forced to use approximately one-third, or \$190,045 from the Budget Stabilization Fund for the current fiscal year. There are also vacant positions in the Police, Fire, Clerical and Department of Public Works that have not been filled, and the staffing in the City Clerk/Treasurer/Finance Director's office was reduced.

The maximum charter millage rate is 17.50, but due to Headlee reductions the City's 2004 maximum millage is 16.2316. The City levies the full 16.2316.

The above factors will still be affecting the financial situation of the City for fiscal year 2004-2005 and we have budgeted accordingly, with another transfer from the Budget Stabilization necessary.

The Water and Sewer Funds rates were increased 2.3% from the 2003-2004 fiscal year. These funds are increased annually to ensure a continuous level of service for the customers, as well as funding capital improvements necessary to repair, maintain and upgrade the system. There may be discussion on a bond sale or rate increases to fund future capital improvements.

Requests for Information

This financial report is designed to provide a general overview of the City of Alpena's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this Report or requests for additional information should be addressed to the Office of the City Clerk/Treasurer/Finance Director, 208 N. First Avenue, City of Alpena, Alpena, MI 49707. E-mail: karenh@alpena.mi.us, website: www.alpena.mi.us

City of Alpena

STATEMENT OF NET ASSETS

June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Pooled cash and investments	\$ 2,088,398	\$ 558,726	\$ 2,647,124	\$ 20,272
Cash and cash equivalents	543,093	140,260	683,353	63,062
Investments	6,067,163	1,799,867	7,867,030	-
Receivables (net of allowance for uncollectible accounts)	833,367	719,349	1,552,716	73
Internal balances	(52,583)	52,583	-	-
Due from primary government	-	-	-	11,748
Inventories	208,945	-	208,945	-
Prepaid items	8,150	3,902	12,052	-
Deferred charges	-	41,750	41,750	-
Capital assets	52,333,985	32,885,941	85,219,926	147,889
Accumulated depreciation	(25,376,227)	(12,709,933)	(38,086,160)	(33,636)
Total assets	36,654,291	23,492,445	60,146,736	209,408
LIABILITIES				
Accounts payable	447,434	61,585	509,019	122
Accrued payroll	136,306	1,288	137,594	(9)
Accrued interest payable	31,396	42,512	73,908	-
Due to component units	11,748	-	11,748	-
Unearned revenue	-	2,541	2,541	-
Noncurrent liabilities				
Due within one year				
Compensated absences	272,284	-	272,284	-
Bonds and loans	431,711	100,000	531,711	-
Due in more than one year				
Compensated absences	152,641	-	152,641	-
Bonds and loans	2,963,362	3,400,000	6,363,362	-
Total liabilities	4,446,882	3,607,926	8,054,808	113
NET ASSETS				
Invested in capital assets, net of related debt	23,557,458	16,633,496	40,190,954	114,253
Restricted for:				
Debt service	16,098	358,500	374,598	-
Capital outlay	1,384,393	445,451	1,829,844	-
Unrestricted	7,249,460	2,447,072	9,696,532	94,245
Total net assets	\$ 32,207,409	\$ 19,884,519	\$ 52,091,928	\$ 208,498

See accompanying notes to financial statements.

City of Alpena

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
General government	\$ 2,823,709	\$ 1,568,851	\$ 158,846	\$ 24,755
Public safety	3,923,500	762,349	631,522	-
Public works	3,060,171	751,573	965,627	165,306
Parks and recreation	668,947	94,167	68,274	32,805
Interest on long-term debt	157,677	-	-	-
Total governmental activities	<u>10,634,004</u>	<u>3,176,940</u>	<u>1,824,269</u>	<u>222,866</u>
Business-type activities:				
Water	1,265,219	1,390,283	-	-
Sewage	1,715,127	1,764,603	356,035	-
DART	736,014	65,433	429,078	-
Total business-type activities	<u>3,716,360</u>	<u>3,220,319</u>	<u>785,113</u>	<u>-</u>
Total primary government	<u>\$ 14,350,364</u>	<u>\$ 6,397,259</u>	<u>\$ 2,609,382</u>	<u>\$ 222,866</u>
Component Units:				
Downtown Development Authority No.2	\$ 52,131	\$ -	\$ 1,600	\$ -
Downtown Development Authority No.5	23,215	-	-	-
Economic Development Corporation	-	-	-	-
	<u>\$ 75,346</u>	<u>\$ -</u>	<u>\$ 1,600</u>	<u>\$ -</u>
General revenues:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
State sales tax				
Investment earnings				
Gain (loss) on sale of capital assets				
Total general revenues				
Change in net assets				
Net assets - beginning of the year				
Net assets - end of the year				

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,071,257)	\$ -	\$ (1,071,257)	\$ -
(2,529,629)	-	(2,529,629)	-
(1,177,665)	-	(1,177,665)	-
(473,701)	-	(473,701)	-
(157,677)	-	(157,677)	-
<u>(5,409,929)</u>	<u>-</u>	<u>(5,409,929)</u>	<u>-</u>
-	125,064	125,064	-
-	405,511	405,511	-
-	(241,503)	(241,503)	-
-	289,072	289,072	-
<u>\$ (5,409,929)</u>	<u>\$ 289,072</u>	<u>\$ (5,120,857)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (50,531)
-	-	-	(23,215)
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (73,746)</u>
3,913,939	117,017	4,030,956	81,465
324,128	-	324,128	-
1,482,054	-	1,482,054	-
120,395	41,741	162,136	2,376
(94,141)	(4,135)	(98,276)	-
<u>5,746,375</u>	<u>154,623</u>	<u>5,900,998</u>	<u>83,841</u>
336,446	443,695	780,141	10,095
31,870,963	19,440,824	51,311,787	198,403
<u>\$ 32,207,409</u>	<u>\$ 19,884,519</u>	<u>\$ 52,091,928</u>	<u>\$ 208,498</u>

See accompanying notes to financial statements.

City of Alpena

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2004

	General	Major Street	Local Street
ASSETS			
Pooled cash and investments	\$ -	\$ 82,186	\$ 461,881
Cash and cash equivalents	413,158	-	-
Investments	3,772,226	-	-
Receivables (net of allowance for for uncollectible accounts)	643,972	19,956	94,751
Due from other funds	-	500,000	638,558
Total assets	<u>\$ 4,829,356</u>	<u>\$ 602,142</u>	<u>\$ 1,195,190</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 245,969	\$ 129,252	\$ 65,829
Accrued payroll	122,412	3,910	5,757
Due to other funds	2,256,520	-	-
Due to component units	11,748	-	-
Deferred revenue	173,422	9,971	94,751
Total liabilities	<u>2,810,071</u>	<u>143,133</u>	<u>166,337</u>
Fund Balances:			
Reserved for debt service	-	-	-
Reserved for capital outlay	-	-	-
Unreserved, reported in:			
General fund	2,019,285	-	-
Special revenue funds	-	459,009	1,028,853
Permanent fund	-	-	-
Total fund balances	<u>2,019,285</u>	<u>459,009</u>	<u>1,028,853</u>
Total liabilities and fund balances	<u>\$ 4,829,356</u>	<u>\$ 602,142</u>	<u>\$ 1,195,190</u>

Budget Stabilization	Other Governmental Funds	Total Governmental Funds
\$ 70,000	\$ 1,361,026	\$ 1,975,093
-	129,935	543,093
-	670,625	4,442,851
-	11,724	770,403
300,000	12,018	1,450,576
<u>\$ 370,000</u>	<u>\$ 2,185,328</u>	<u>\$ 9,182,016</u>
\$ -	\$ -	\$ 441,050
-	-	132,079
-	-	2,256,520
-	-	11,748
-	-	278,144
<u>-</u>	<u>-</u>	<u>3,119,541</u>
-	16,098	16,098
-	1,384,393	1,384,393
-	-	2,019,285
370,000	-	1,857,862
-	784,837	784,837
<u>370,000</u>	<u>2,185,328</u>	<u>6,062,475</u>
<u>\$ 370,000</u>	<u>\$ 2,185,328</u>	<u>\$ 9,182,016</u>

See accompanying notes to financial statements.

City of Alpena

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**

As of June 30, 2004

Fund balances - Total governmental funds		\$ 6,062,475
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore not reported in the governmental funds.

Governmental capital assets	\$ 48,029,240	
Less accumulated depreciation	<u>(22,372,220)</u>	25,657,020

Deferred revenue in the governmental funds is susceptible to
full accrual on the Statement of Net Assets.

Deferred revenue		278,144
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Long-term liabilities, including bonds payable are not due and
payable in the current period and therefore are not reported
in the governmental funds.

Bonds payable	(2,980,000)	
Land purchase bank loan	(388,903)	
Accrued interest payable	(31,396)	
Compensated absences	<u>(424,925)</u>	(3,825,224)

Internal service funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities of
internal service funds are included in governmental activities in the
Statement of Net Assets.

	<u>4,034,994</u>
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Net Assets of Governmental Activities	<u><u>\$ 32,207,409</u></u>
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City of Alpena

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2004

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 3,911,637	\$ -	\$ -
Licenses and permits	139,405	-	-
State revenue	1,781,445	886,279	244,654
Federal revenue	82,722	-	-
Local grant revenue	534,089	-	-
Charges for services	1,190,752	54,095	32,292
Investment income and rents	129,188	13,767	20,271
Fines and forfeitures	31,621	-	-
Other	380,854	50,313	2,805
Total revenues	<u>8,181,713</u>	<u>1,004,454</u>	<u>300,022</u>
EXPENDITURES			
Current operations			
General government	1,898,009	-	-
Public safety	3,672,633	-	-
Public works	1,067,675	1,319,622	858,070
Parks and recreation	738,511	-	-
Capital outlay	-	-	-
Debt service			
Principal retirement	-	-	-
Interest and fees	-	-	-
Total expenditures	<u>7,376,828</u>	<u>1,319,622</u>	<u>858,070</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>804,885</u>	<u>(315,168)</u>	<u>(558,048)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers from other funds	190,045	-	825,000
Operating transfers to other funds	(1,167,150)	-	-
Total other financing sources (uses)	<u>(977,105)</u>	<u>-</u>	<u>825,000</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(172,220)</u>	<u>(315,168)</u>	<u>266,952</u>
FUND BALANCES, beginning of the year	<u>2,191,505</u>	<u>774,177</u>	<u>761,901</u>
FUND BALANCES, end of the year	<u>\$ 2,019,285</u>	<u>\$ 459,009</u>	<u>\$ 1,028,853</u>

Budget Stabilization	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 324,128	\$ 4,235,765
-	-	139,405
-	-	2,912,378
-	-	82,722
-	-	534,089
-	12,110	1,289,249
10,045	66,003	239,274
-	-	31,621
-	10,970	444,942
10,045	413,211	9,909,445
-	34,588	1,932,597
-	-	3,672,633
-	-	3,245,367
-	-	738,511
-	7,574	7,574
-	472,591	472,591
-	155,347	155,347
-	670,100	10,224,620
10,045	(256,889)	(315,175)
-	286,650	1,301,695
(190,045)	-	(1,357,195)
(190,045)	286,650	(55,500)
(180,000)	29,761	(370,675)
550,000	2,155,567	6,433,150
\$ 370,000	\$ 2,185,328	\$ 6,062,475

See accompanying notes to financial statements.

City of Alpena

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2004

Net change in fund balances - Total governmental funds		\$	(370,675)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	\$	1,714,354	
Less current year depreciation		<u>(1,406,822)</u>	307,532

Repayment of bond and land purchase bank loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of activities.

Bond principal payments		375,000	
Land purchase bank loan principal payments		<u>97,591</u>	472,591

Some revenues (costs) reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Net book value of assets sold or retired		(224,471)	
Change in deferred revenue		<u>141,949</u>	(82,522)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest payable		1,191	
Change in long-term compensated absences		<u>15,984</u>	17,175

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

(7,655)

Change in Net Assets of Governmental Activities		\$	<u><u>336,446</u></u>
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City of Alpena

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water	Sewage	DART
ASSETS			
Current assets			
Pooled cash and investments	\$ 144,599	\$ 414,127	\$ -
Cash and cash equivalents	-	-	140,260
Investments	1,000,038	799,829	-
Accounts receivable (net of allowance for uncollectible accounts)	545,650	146,803	26,896
Due from other funds	51,556	-	1,027
Inventories	-	-	-
Prepaid items	-	-	3,902
Total current assets	1,741,843	1,360,759	172,085
Noncurrent assets			
Deferred charges	20,875	20,875	-
Capital assets	10,270,869	21,970,404	644,668
Accumulated depreciation	(4,302,051)	(7,887,255)	(520,627)
Total noncurrent assets	5,989,693	14,104,024	124,041
Total assets	7,731,536	15,464,783	296,126
LIABILITIES			
Current liabilities			
Accounts payable	12,117	24,164	25,304
Accrued payroll	360	928	-
Accrued interest payable	21,256	21,256	-
Due to other funds	-	-	-
Unearned revenue	847	1,694	-
Current portion of long-term debt payable	50,000	50,000	-
Total current liabilities	84,580	98,042	25,304
Noncurrent liabilities			
Long-term debt	1,700,000	1,700,000	-
Total liabilities	1,784,580	1,798,042	25,304
NET ASSETS			
Invested in capital assets, net of related debt	4,197,562	12,311,893	124,041
Restricted for debt service	179,250	179,250	-
Restricted for capital asset purchases	51,973	393,478	-
Unrestricted	1,518,171	782,120	146,781
Total net assets	\$ 5,946,956	\$ 13,666,741	\$ 270,822

Totals Current Year	Governmental Activities - Internal Service Funds
\$ 558,726	\$ 113,305
140,260	-
1,799,867	1,624,312
719,349	62,964
52,583	753,361
-	208,945
3,902	8,150
<u>3,274,687</u>	<u>2,771,037</u>
41,750	-
32,885,941	4,304,745
(12,709,933)	(3,004,007)
<u>20,217,758</u>	<u>1,300,738</u>
<u>23,492,445</u>	<u>4,071,775</u>
61,585	6,384
1,288	4,227
42,512	-
-	-
2,541	-
100,000	26,170
<u>207,926</u>	<u>36,781</u>
<u>3,400,000</u>	<u>-</u>
<u>3,607,926</u>	<u>36,781</u>
16,633,496	1,274,568
358,500	-
445,451	-
2,447,072	2,760,427
<u>\$ 19,884,519</u>	<u>\$ 4,034,995</u>

See accompanying notes to financial statements.

City of Alpena

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water	Sewage	DART
OPERATING REVENUES			
Charges for services	\$ 1,370,203	\$ 1,752,932	\$ 65,413
Other services	20,080	11,671	20
Total operating revenues	<u>1,390,283</u>	<u>1,764,603</u>	<u>65,433</u>
OPERATING EXPENSES			
Salaries and wages	26,670	21,795	-
Employee benefits	12,836	10,109	-
Administrative services	87,200	103,000	8,550
Contracted services	647,709	691,073	417,969
Insurance	21,922	41,112	9,854
Utilities	83,272	211,551	2,573
Maintenance	3,590	8,206	125
Equipment rental	22,914	16,933	-
Depreciation	201,731	483,505	120,494
Supplies and other	69,918	40,387	32,298
Total operating expenses	<u>1,177,762</u>	<u>1,627,671</u>	<u>591,863</u>
OPERATING INCOME (LOSS)	<u>212,521</u>	<u>136,932</u>	<u>(526,430)</u>
NONOPERATING REVENUES (EXPENSES)			
Property taxes	-	-	117,017
State revenue	-	94,151	340,987
Federal revenue	-	261,884	88,091
Investment income and rents	21,642	18,099	2,000
Gain (loss) on disposal of assets	(3,308)	(827)	-
Interest expense	(87,457)	(87,456)	-
Specialized services pass-through	-	-	(144,151)
Total nonoperating revenues (expenses)	<u>(69,123)</u>	<u>285,851</u>	<u>403,944</u>
Net income before transfers	143,398	422,783	(122,486)
Transfers in	-	-	-
Change in net assets	143,398	422,783	(122,486)
Net assets - beginning of the year	<u>5,803,558</u>	<u>13,243,958</u>	<u>393,308</u>
Net assets - end of the year	<u>\$ 5,946,956</u>	<u>\$ 13,666,741</u>	<u>\$ 270,822</u>

Totals Current Year	Governmental Activities - Internal Service Funds
\$ 3,188,548	\$ 1,147,741
31,771	-
<u>3,220,319</u>	<u>1,147,741</u>
48,465	128,304
22,945	67,697
198,750	234,280
1,756,751	-
72,888	56,677
297,396	-
11,921	150,057
39,847	-
805,730	286,486
142,603	279,660
<u>3,397,296</u>	<u>1,203,161</u>
<u>(176,977)</u>	<u>(55,420)</u>
117,017	-
435,138	-
349,975	-
41,741	(9,544)
(4,135)	5,330
(174,913)	(3,521)
(144,151)	-
<u>620,672</u>	<u>(7,735)</u>
443,695	(63,155)
<u>-</u>	<u>55,500</u>
443,695	(7,655)
<u>19,440,824</u>	<u>4,042,649</u>
<u>\$ 19,884,519</u>	<u>\$ 4,034,994</u>

See accompanying notes to financial statements.

City of Alpena

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water	Sewage	DART
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,390,586	\$ 1,765,995	\$ 64,125
Receipts from interfund services provided	-	-	-
Payments to suppliers	(848,173)	(1,106,873)	(448,517)
Payments to employees	(39,994)	(32,150)	-
Payments for interfund services used	(87,200)	(103,000)	(8,550)
Net cash provided (used) by operating activities	415,219	523,972	(392,942)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	-	-	4,185
Property taxes	-	-	117,017
State grants	-	94,151	349,314
Federal grants	-	261,884	55,203
Specialized services pass-through	-	-	(144,151)
	-	356,035	381,568
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(247,840)	(832,109)	(12,867)
Principal paid on capital debt	(50,000)	(50,000)	-
Interest paid on capital debt	(86,738)	(86,737)	-
Proceeds from sale of capital assets	-	65,819	-
Proceeds from loan	-	-	-
Net cash provided (used) by capital and related financing activities	(384,578)	(903,027)	(12,867)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	500,000	500,000	-
Purchase of investments	(1,000,038)	(799,829)	-
Interest and dividends received	15,830	14,403	2,000
Net cash provided (used) by investing activities	(484,208)	(285,426)	2,000
Net increase (decrease) in cash and cash equivalents	(453,567)	(308,446)	(22,241)
CASH AND CASH EQUIVALENTS, beginning of the year	598,166	722,573	162,501
CASH AND CASH EQUIVALENTS, end of the year	\$ 144,599	\$ 414,127	\$ 140,260

Totals Current Year	Governmental Activities - Internal Service Funds
\$ 3,220,706	\$ 1,124,039
-	-
(2,403,563)	(455,818)
(72,144)	(194,770)
(198,750)	(234,280)
546,249	239,171
4,185	97,484
117,017	-
443,465	-
317,087	-
(144,151)	-
737,603	97,484
(1,092,816)	(467,903)
(100,000)	(104,085)
(173,475)	(3,521)
65,819	25,423
-	39,255
(1,300,472)	(510,831)
1,000,000	1,792,766
(1,799,867)	(1,624,312)
32,233	(1,489)
(767,634)	166,965
(784,254)	(7,211)
1,483,240	120,516
\$ 698,986	\$ 113,305

City of Alpena

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - Continued**

For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water	Sewage	DART
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income (loss)	\$ 212,521	\$ 136,932	\$ (526,430)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	201,731	483,505	120,494
Increase (decrease) in accounts receivable	303	1,392	(1,308)
Increase (decrease) in special assessments receivable	846	1,694	-
Increase (decrease) inventories	-	-	-
Increase (decrease) in prepaid items	-	-	547
Increase (decrease) in accounts payable	1,152	(97,611)	13,755
Increase (decrease) in accrued payroll	(488)	(246)	-
Increase (decrease) in unearned revenue	(846)	(1,694)	-
Net cash provided (used) by operating activities	<u>\$ 415,219</u>	<u>\$ 523,972</u>	<u>\$ (392,942)</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Increase (decrease) in the fair value of investments	<u>\$ (2)</u>	<u>\$ (203)</u>	<u>\$ -</u>

Totals Current Year	Governmental Activities - Internal Service Funds
\$ (176,977)	\$ (55,420)
805,730	286,486
387	(23,702)
2,540	-
-	30,271
547	4,075
(82,704)	(3,770)
(734)	1,231
(2,540)	-
<u>\$ 546,249</u>	<u>\$ 239,171</u>
<u>\$ (205)</u>	<u>\$ 62,501</u>

See accompanying notes to financial statements.

City of Alpena

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

June 30, 2004

	Pension (and Other Employee Benefit) Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 1,933,209	\$ 48,650
Investments	25,211,381	-
Interest receivable	134,293	-
Taxes receivable	-	9,952
Total assets	27,278,883	58,602
LIABILITIES		
Accounts payable	29,309	48,650
Due to other governmental units	-	9,952
Total liabilities	29,309	58,602
NET ASSETS		
Held in trust for pension benefits and other purposes	27,249,574	-
Unrestricted	-	-
	<u>\$ 27,249,574</u>	<u>\$ -</u>

See accompanying notes to financial statements.

City of Alpena

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

For the year ended June 30, 2004

	Pension (and Other Employee Benefit) Trust Funds
ADDITIONS	
Contributions	
Employer	\$ 183,776
Employees	151,545
Other	5,362
Total contributions	<u>340,683</u>
Investment income	
Net increase (decrease) in fair value of investments	2,025,484
Interest	694,066
Dividends	188,317
	<u>2,907,867</u>
Less investment expense	83,749
Net investment income	<u>2,824,118</u>
Total additions	<u>3,164,801</u>
DEDUCTIONS	
Benefits	1,512,559
Lump-sum retirement payments	211,467
Refund of contributions	7,606
Administrative expense	23,909
Total deductions	<u>1,755,541</u>
Change in net assets	1,409,260
Net assets - beginning of the year	<u>25,840,314</u>
Net assets - end of the year	<u>\$ 27,249,574</u>

See accompanying notes to financial statements.

City of Alpena

STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2004

	Downtown Development Authority No. 2	Downtown Development Authority No. 5	Economic Development Corporation	Total
ASSETS				
Pooled cash and investments	\$ -	\$ 20,272	\$ -	\$ 20,272
Cash and cash equivalents	59,474	-	3,588	63,062
Receivables (net of allowance for uncollectible accounts)	-	73	-	73
Due from primary government	11,748	-	-	11,748
Capital assets	147,514	375	-	147,889
Accumulated depreciation	(33,261)	(375)	-	(33,636)
Total assets	<u>185,475</u>	<u>20,345</u>	<u>3,588</u>	<u>209,408</u>
LIABILITIES				
Accounts payable	-	122	-	122
Accrued payroll	398	390	-	788
Total liabilities	<u>398</u>	<u>512</u>	<u>-</u>	<u>910</u>
NET ASSETS				
Invested in capital assets, net of related debt	114,253	-	-	114,253
Unrestricted	70,824	19,833	3,588	94,245
Total net assets	<u>\$ 185,077</u>	<u>\$ 19,833</u>	<u>\$ 3,588</u>	<u>\$ 208,498</u>

See accompanying notes to financial statements.

City of Alpena

STATEMENT OF ACTIVITIES - COMPONENT UNITS

For the Year Ended June 30, 2004

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority No.2	\$ 52,131	\$ -	\$ 1,600	\$ -
Downtown Development Authority No.5	23,215	-	-	-
Economic Development Corporation	-	-	-	-
	<u>\$ 75,346</u>	<u>\$ -</u>	<u>\$ 1,600</u>	<u>\$ -</u>

General revenues:

Property taxes, levied for general purposes

Investment earnings

Total general revenues and transfers

Change in net assets

Net assets - beginning of the year

Net assets - end of the year

Net (Expense) Revenue and Changes in Net Assets			
Downtown Development Authority No. 2	Downtown Development Authority No. 5	Economic Development Corporation	Total
\$ (50,531)	\$ -	\$ -	\$ (50,531)
-	(23,215)	-	(23,215)
-	-	-	-
<u>\$ (50,531)</u>	<u>\$ (23,215)</u>	<u>\$ -</u>	<u>\$ (73,746)</u>
62,977	18,488	-	81,465
1,747	615	14	2,376
<u>64,724</u>	<u>19,103</u>	<u>14</u>	<u>83,841</u>
14,193	(4,112)	14	10,095
170,884	23,945	3,574	198,403
<u>\$ 185,077</u>	<u>\$ 19,833</u>	<u>\$ 3,588</u>	<u>\$ 208,498</u>

See accompanying notes to financial statements.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of the City of Alpena (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Alpena:

A. Reporting Entity.

The City was incorporated in 1871 and covers an area of approximately nine square miles. The City operates under an elected Municipal Council (consisting of the Mayor and four members) and provides services to approximately 11,304 residents (2000 census) in many areas including law enforcement, fire, water, sewer, community enrichment and development, and human services.

Education and health services are provided by a local school district, a community college, a general hospital and a public library; these units are separate governmental units or are parts of separate governmental units and their financial statements are not included herein, in accordance with the Governmental Accounting Standards Board Codification Section 2100.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended component units - A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City of Alpena. It is reported as a part of the City and blended into the appropriate fund types and account groups.

Building Authority - The City of Alpena Building Authority is governed by a three member board appointed by the City's governing body. Although it is legally separate from the City, the Building Authority is reported as if it were a part of the primary government because its sole purpose is to finance and construct the City's public buildings.

Discretely presented component units - The component units' columns in the government-wide combined financial statements include the financial data of the City's three component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

City of Alpena Downtown Development Authority (DDA) No. 2 and No. 5 - (Governmental Fund Type)

- * City approves operating budget
- * City appoints governing board
- * City issues bonds to finance Authority projects
- * Surplus funds existing at termination of Authority vest to the City

The Downtown Development Authorities were organized to promote and rehabilitate the downtown area. The Authorities also sponsor downtown events.

City of Alpena Economic Development Corporation (EDC) - (Governmental Fund Type)

- * City appoints governing board
- * City approves issuance of bonds to finance projects
- * Surplus funds existing at termination of Corporation vest to City

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The EDC was created to encourage business development and job creation within the City. The EDC provides loans to start up or expanding businesses.

Separate financial statements for the three discretely presented component units are not prepared. Questions about these organizations may be directed to the Alpena City Clerk-Treasurer.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government reports the following major governmental funds:

General Fund. This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund. This fund accounts for the resources of state gas and weight tax revenues that are restricted for use on City streets that have been designated as major by the Michigan Department of Transportation.

Local Street Fund. This fund accounts for the resources of state gas and weight tax revenues that are restricted for use on City streets that have been designated as local by the Michigan Department of Transportation.

Budget Stabilization Fund. This fund is used to account for funds set aside under the provisions of Michigan Public Act 30 of 1978.

The government reports the following major proprietary funds:

Water Fund. Accounts for the activities related to water production, purification, distribution and billing.

Sewage Fund. Accounts for the activities associated with the collection and purification of wastewater.

Dial-A-Ride Transportation (DART). This fund is used to account for the operation of the public transportation system.

Additionally, the City of Alpena reports the following fund types:

Permanent Funds. Report resources that are legally restricted to the extent that only earnings, and not principal may be used to support operations.

Debt Service Funds. Account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Project Funds. These funds are used to account for the acquisition or construction of capital facilities.

Internal Service Funds. Account for major machinery and equipment purchases and maintenance, as well as supply inventory services provided to other departments of the government on a cost reimbursement basis.

Pension and Other Employee Benefit Trust Funds. Accounts for the activities of the City of Alpena's employee retirement system which accumulates resources for pension benefit payments to qualified employees and funding of employee health care benefits.

Agency Funds. These funds are used to account for assets held in trust or as an agent for others.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments. The city maintains and controls two cash and investment pools in which the primary government and component unit's share. Each fund's or component unit's portion of a pool is displayed on its respective balance sheet as "Pooled cash and investments". In addition, Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value which is determined using selective bases. Securities traded on a national exchange are valued at the last reported sales price.

Receivables and Payables. In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items. Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets. Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land improvements 20 to 25 years
Buildings 40 to 50 years
Building Improvements 15 to 30 years
Vehicles 3 to 5 years
Office Equipment 5 to 7 years
Computer Equipment 3 to 7 years
Water and Sewer Lines 50 to 75 years
Roads 10 to 30 years

Compensated Absences (Vacation and Sick Leave). City employees are granted vacation and sick leave in varying amounts based on length of service. Vacation pay is fully vested when earned; upon termination, employees are paid accumulated vacation at their regular pay rates to a limit of 100% of their current annual earned vacation.

Administrative and non-union employees are granted 120 days of sick leave at the time of hire. If after using some or all of his/her sick leave, an employee goes six (6) months without missing a scheduled day of work, his/her sick leave bank is restored to 120 days. At termination, death, or retirement, no payment is made to an administrative or non-union employee (or heirs) for unused sick leave.

Clerical employees hired prior to July 1, 1989, Public Works employees, and Police Patrol and Command Officers earn sick leave at the rate of one day for each full month worked, up to the following caps:

	<u>Days</u>
Clerical	90
Public Works	65
Police Patrol	130/90*
Police Command	130

*Police Patrol Officers hired after July 1, 1989

Upon retirement, these employees are paid for one-half of their accumulated sick leave based on their hourly straight-time rate of pay at the time of retirement. No payments for unused sick leave are made at termination or death. Clerical employees hired after July 1, 1989, are not entitled to sick leave.

Fire Department employees earn sick leave at the rate of 12 hours for each full month worked with no cap. Upon either retirement or death, Fire Department employees, or heirs, are paid for one-half of their accumulated sick leave based on their regular straight-time hourly rate of pay at the time of retirement or death. The payoff is limited to 13 weeks pay.

All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Obligations. In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Contracted Services. On July 1, 1988 the City turned over operation of its Water and Sewage Treatment Plants to a private contractor, who is also responsible for billings and collection of payments. Except for certain equipment, ownership of these plants remains with the City. Various other maintenance services previously performed by the City are now being provided by independent contractors.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data / Reclassifications. Comparative total data for the prior year have been presented only in the management discussion and analysis and in the individual fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.

Budgetary Information. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. Prior to adoption of the budgets, City departments prepare and submit their proposed operating budgets commencing July 1. A public hearing is conducted the second meeting in May to obtain taxpayer comments. Prior to July 1, the budget is adopted by the Council. Budgeted amounts shown are as originally adopted, or as amended by the Council during the year. Unused appropriations lapse at June 30 and are not carried forward to the following year.

After the budget is adopted, the City Manager and the Clerk/Treasurer are authorized to transfer budgeted amounts between accounts within a department. However, any revisions that alter the total expenditures of a department or fund must be approved by the City Council. Activities of the general fund, special revenue funds and debt service funds are included in the annual appropriated budget. Project-length financial plans are adopted for the capital project funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriation amount) is established by function within the individual fund.

Individual budget amendments were not material in relation to the original appropriations.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

Excess of Expenditures Over Appropriations in Budgeted Funds. The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.) provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The City of Alpena's budgeted and actual expenditures for the funds budgeted have been shown on a functional basis.

During the year, the City incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund – Building Inspection	\$ 117,480	\$ 118,477	\$ (977)
General Fund - Operating transfers to other funds	1,167,000	1,167,150	(150)
Major Street Fund - Equipment rental	134,700	145,341	(10,641)
Budget Stabilization - Operating transfers to other funds	180,000	190,045	(10,045)

Accumulated Fund Deficits. The City of Alpena had no funds with an accumulated fund balance/retained earnings deficit at June 30, 2004.

NOTE 3--DEPOSITS AND INVESTMENTS.

Michigan Compiled Laws, Section 129.91, authorizes the City of Alpena to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City of Alpena council has designated six banks for the deposit of City funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City of Alpena's deposits and investments are in accordance with statutory authority.

At year end, the City of Alpena's deposits and investments were reported in the basic financial statements in statements in the following categories:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Pooled cash and investments	\$ 2,088,398	\$ 558,726	\$ -	\$ 20,272
Cash and cash equivalents	543,093	140,260	1,981,859	63,062
Investments	<u>6,067,163</u>	<u>1,799,867</u>	<u>25,211,381</u>	<u>-</u>
	<u>\$ 8,698,654</u>	<u>\$ 2,498,853</u>	<u>\$ 27,193,240</u>	<u>\$ 83,334</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and Certificates of Deposit)	\$ 5,310,036	\$ 83,334
Investment (securities, mutual funds and other similar vehicles)	<u>33,078,411</u>	<u>-</u>
Petty cash and cash on hand	<u>2,300</u>	<u>-</u>
	<u>\$ 38,390,747</u>	<u>\$ 83,334</u>

The bank balance of the primary government's deposits is \$6,088,522, of which \$631,248 is covered by federal depository insurance and \$1,981,860 is secured by collateral held by the City's agent in the City's name. The component unit's deposit had a bank balance of \$83,358, of which \$63,086 was covered by federal depository insurance.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity for the year ended June 30, 2004:

- Category 1 Includes investments that are insured or registered for which the securities are held by the City or its custodial agent in the City's name.
- Category 2 Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
- Category 3 Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the City's name.

	Category			Fair Value	Cost
	<u>1</u>	<u>2</u>	<u>3</u>		
Certificates of deposit	\$ -	\$ -	\$ 5,272,093	\$ 5,272,093	\$ 5,278,353
U.S. Government Securities	2,399,879	-	2,594,938	4,994,817	5,021,620
Limited partnerships	-	-	1,051,836	1,051,836	1,000,000
Corporate bonds	-	-	7,269,971	7,269,971	7,359,771
Common stock	<u>-</u>	<u>-</u>	<u>14,489,694</u>	<u>14,489,694</u>	<u>11,891,505</u>
Total categorized Investments	<u>\$2,399,879</u>	<u>\$ -</u>	<u>\$30,678,532</u>	<u>\$33,078,411</u>	<u>\$30,551,249</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

The table below segregates the above investments as either a Primary Government, Fiduciary Fund, or Component Unit.

	Primary Government	Fiduciary Funds	Component Units	Totals
Certificates of deposit	\$ 5,272,093	\$ -	\$ -	\$ 5,272,093
U.S. government securities	2,594,937	2,399,880	-	4,994,817
Limited partnerships	-	1,051,836	-	1,051,836
Corporate bonds	-	7,269,971	-	7,269,971
Common stock	-	14,489,694	-	14,489,694
Total categorized investments	\$ <u>7,867,030</u>	\$ <u>25,211,381</u>	\$ <u>-</u>	\$ <u>33,078,411</u>

NOTE 4--RECEIVABLES.

Receivables for the primary government and component units at June 30, 2004 are as follows:

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Receivables (net of allowance for uncollectibles)	\$ 234,400	\$ 704,428	\$ 938,828	\$ -
Special assessments receivable	265,256	2,541	267,797	-
Taxes receivable	12,888	-	12,888	-
Interest receivable	50,058	12,380	62,438	-
Due from governmental units	270,765	-	270,765	73
	<u>\$ 833,367</u>	<u>\$ 719,349</u>	<u>\$ 1,552,716</u>	<u>\$ 73</u>

NOTE 5--PROPERTY TAXES.

The City's property tax is levied on each July 1st on the taxable valuation of property located in the City as of the preceding December 31st of the preceding year for all taxable real and personal property located in the City. On July 1, the property tax attachment is an enforceable lien on the property and is payable, without penalty, by July 31. On March 1 of the subsequent year unpaid taxes are returned to the County Treasurer as delinquent.

Although the City's 2003 ad valorem tax is levied and collectible on July 1, 2003, it is City policy to recognize revenues from the current tax levy in the current year when the City proceeds of this levy are budgeted and made available for the financing of City operations.

The 2003 taxable valuation of the City of Alpena amounted to \$230,030,051 on which ad valorem taxes of 16.2544 mills were levied for City operating purposes; 1.3805 mills for debt retirement, .4986 for Dial-A-Ride transportation and .2094 for community events center.

The 2003 current tax levy raised \$3,809,594 for City operating; \$47,390 for community events center; \$324,128 for the City debt retirement and \$117,017 for Dial-A-Ride transportation. These amounts are recognized in the respective general fund, debt service funds, and enterprise fund financial statements as property tax revenue.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

In addition, specific taxes are levied under the Industrial Facilities Tax Act, Tax Increment Financing Authority, and the Downtown Development Authority. City residents also are assessed 8.0280 mills for County operations, 2.4542 mills for the Community College, and 1.0852 mills for the Educational Service District. In addition, nonhomestead properties paid 18 mills while homestead properties paid 6 mills for public schools, along with 2.98 mills for school debt.

NOTE 6--CAPITAL ASSETS.

Capital asset activity of the primary government for the current year was as follows:

	Primary Government		
	Balances Jul 1, 2003	Additions	Balances Jun 30, 2004
Governmental activities:			
Historical cost:			
Land	\$ 3,018,171	\$ -	\$ (134,206)
Land improvements	3,453,354	95,236	(94,455)
Buildings and improvements	7,325,146	13,145	-
Equipment	6,087,469	10,288	-
Infrastructure	30,735,443	547,983	(246,801)
Construction in progress	94,455	1,419,795	(91,038)
	<u>50,714,038</u>	<u>2,186,447</u>	<u>(566,500)</u>
			<u>52,333,985</u>
Allowance for depreciation:			
Land improvements	(838,968)	(87,289)	-
Buildings and improvements	(3,240,134)	(152,073)	-
Equipment	(4,254,161)	(454,320)	246,801
Infrastructure	(15,667,403)	(1,019,718)	91,038
	<u>(24,000,666)</u>	<u>(1,713,400)</u>	<u>337,839</u>
			<u>(25,376,227)</u>
Net Capital Assets	<u>\$ 26,713,372</u>	<u>\$ 473,047</u>	<u>\$ (228,661)</u>
			<u>\$ 26,957,758</u>
Business-type activities:			
Historical cost:			
Land	\$ 12	\$ -	\$ -
Land improvements	427,423	8,187	(102,708)
Buildings and improvements	4,179,301	-	-
Equipment	2,065,848	184,465	-
Infrastructure	25,120,709	56,521	(85,438)
Construction in progress	102,708	946,350	(17,437)
	<u>31,896,001</u>	<u>1,195,523</u>	<u>(205,583)</u>
			<u>32,885,941</u>
Allowance for depreciation:			
Land improvements	(47,900)	(12,560)	-
Buildings and improvements	(1,174,055)	(122,505)	-
Equipment	(1,212,525)	(197,861)	19,619
Infrastructure	(9,502,645)	(472,803)	13,302
	<u>(11,937,125)</u>	<u>(805,729)</u>	<u>32,921</u>
			<u>(12,709,933)</u>
Net Capital Assets	<u>\$ 19,958,876</u>	<u>\$ 389,794</u>	<u>\$ (172,662)</u>
			<u>\$ 20,176,008</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 58,863
Public safety	274,003
Public works	212,220
Highway, streets and lights	1,019,718
Parks and recreation	148,596
	<u>1,713,400</u>

Business-type activities:

Water	201,731
Sewage	483,505
DART	120,494
	<u>\$ 805,730</u>

NOTE 7—INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS.

The composition of interfund balances at June 30, 2004 is as follows:

	Interfund Receivable	Interfund Payable
Governmental Funds:		
General Fund	\$ -	\$ 2,256,520
Special Revenue Funds		
Major street	-	(500,000)
Local street	-	(638,558)
Budget stabilization	-	(300,000)
Permanent Fund		
Perpetual lot care	-	(12,018)
Internal Service Funds		
Equipment	-	(753,361)
Enterprise Funds		
Water	51,556	-
DART	1,027	-
Internal balances	<u>\$ 52,583</u>	<u>\$ 52,583</u>
	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$ 190,045	\$ (1,167,150)
Local Street Fund	825,000	-
Budget stabilization	-	(190,045)
Non-Major Governmental Funds	286,650	-
Stores	55,500	-
Transfers	<u>\$ 1,357,195</u>	<u>\$ (1,357,195)</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 8--LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	Balances, Jul 1, 2003	Additions	(Deductions)	Balances, Jun 30, 2004
Governmental Activities				
Alpena County sanitary sewage unlimited tax refunding bonds, dated 1994 (1992-2012) (contractual obligation)	\$ 1,100,000	\$ -	\$ (185,000)	\$ 915,000
General obligation unlimited tax bonds dated 2002, (2002-2012)	1,855,000	-	(170,000)	1,685,000
Building Authority bonds dated 2001, (2002-2015)	400,000	-	(20,000)	380,000
Land purchase bank loan dated 2000, (2001-2015)	486,494	-	(97,591)	388,903
Installment purchase agreement, dated 1994, (1995-2004)	91,000	39,255	(104,085)	26,170
Total governmental activities	<u>\$ 3,932,494</u>	<u>\$ 39,255</u>	<u>\$ (576,676)</u>	<u>\$ 3,395,073</u>
Business-type Activities				
1998 water supply and sewage Disposal system revenue bonds, dated 1998, (1999-2015)	<u>\$3,600,000</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ 3,500,000</u>

Annual debt service requirements to maturity for the above obligations for the above are as follows:

	Government Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 418,626	\$ 132,964	\$ 100,000	\$ 166,925
2006	418,626	116,272	150,000	159,113
2007	450,541	98,594	150,000	149,737
2008	465,541	79,465	200,000	138,800
2009	480,541	59,294	200,000	126,300
2010 through 2014	1,066,198	109,059	1,200,000	466,150
2015 through 2019	95,000	4,658	1,500,000	160,875
Total	<u>\$ 3,395,073</u>	<u>\$ 600,306</u>	<u>\$ 3,500,000</u>	<u>\$ 1,367,900</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

Advance Refunding. On February 28, 2002, the City of Alpena issued \$1,995,000 in General Obligation Unlimited Tax Refunding Bonds with an average interest rate of 3.77% to advance refund \$1,925,000 of outstanding 1992 General Obligation Unlimited Tax Bonds with an average interest rate of 5.69%. The net proceeds of \$1,931,682 (after payment of \$70,700 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance-refunded portion of the 1992 General Obligation Unlimited Tax Bonds. As a result the 1992 bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group.

The City of Alpena advance refunded the 1992 General Obligation Unlimited Tax Bonds to reduce its total debt service payments for 2003 through 2012 by \$255,623 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$202,766.

NOTE 9--NET ASSET RESERVATIONS AND RESTRICTIONS.

Governmental Activities

Restricted for debt service

General debt

\$ 11,634

1992 G.O. debt

4,364

Building authority debt

100

16,098

Restricted for capital outlay

Construction

447,558

D.P.W. construction

897,470

Building authority construction

39,365

1,384,393

Business-type Activities

Restricted for debt service

Water fund

179,250

Sewage fund

179,250

358,500

Restricted for capital outlay

Water fund

51,973

Sewage fund

393,478

445,451

Fiduciary Funds

Held in trust for pension benefits and other purposes

Pension trust fund

29,855,095

Employee health care fund

107,159

29,962,254

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 10--BUILDING PERMIT REVENUES AND RELATED EXPENDITURES.

The State of Michigan Construction Code Act (Public Act 245 of 1999) requires that building activity be separated from other general fund activity effective January 1, 2000. The City of Alpena's fee structure is not intended to recover the full cost of the enforcing agency, therefore, it has not been segregated from the general fund. For the year ended June 30, 2004, the City of Alpena collected \$ 89,325 in building permit fees. For the same time period, the City expended \$118,477. The City subsidized the construction permit program with \$ 34,000.

NOTE 11--CONTINGENCIES AND CLAIMS.

The City of Alpena, like many municipalities, previously owned and operated a solid waste landfill. Should the Michigan Department of Natural Resources (MDNR) determine that environmental contamination exists, the City, as well as other parties, could be required to share in any associated clean-up costs. However, at this point in time, the City is not incurring nor expects to incur in the future any additional costs associated with this landfill.

Litigation. During the ordinary course of its operation, the City is a party to various claims, legal actions and complaints. The majority of these matters are covered by the City's Risk Management program. Those which are not covered involve construction contract claims.

In the opinion of the City's management and legal counsel, that while possible, it is not probable that the City will receive unfavorable rulings in the other lawsuits. These matters are not anticipated to have a material financial impact on the city.

NOTE 12--RISK MANAGEMENT.

The City of Alpena is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims, and workers compensation coverage from the Michigan Municipal Workers Compensation Fund. We currently have general liability, excess liability, auto liability, trunk line liability, errors and omissions, physical damage (equipment, buildings and contents) through St. Paul Property and Liability Insurance, administrated through Arthur J. Gallagher & Company of Michigan, Incorporated.

Michigan municipal corporations in the State of Michigan established and created a trust fund, knows as the Michigan Municipal Liability and Property Pool in accordance with the provisions of Section 7, 1951 P.A. 35, as amended by 1988 P.A. 36. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities with the state. The City of Alpena became a member of the pool in January 1978 for workers compensation insurance and from December 1996 to December 2000 for liability and property coverage.

Arthur J. Gallagher & Company ("Gallagher") is one of the largest providers of brokerage and risk management services to Public entities. Gallagher plans and administers all types of insurance, reinsurance, risk management, and self-insurance programs through various specialized companies.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 13--PENSION TRUST FUND.

Plan Descriptions, Funding Policies, and Contribution Information. The City reporting entity participates in and administers one single-employer defined benefit pension plan - City of Alpena Employees' Retirement System. Assets are held separately and may be used only for the payment of benefits to the members of the City's retirement plan.

The City of Alpena Employees' Retirement System provides retirement benefits for substantially all full-time employees. Unless otherwise indicated, City retirement system information in this Note is provided as of the latest actuarial valuation, December 31, 2003.

Actuarial valuations are performed annually. For additional information relating to basis of accounting and reported investment values, see Note 1 and Note 3.

The following is a summary of funding policies, contribution methods, and benefit provisions:

Year established and governing authority	- 1945; City Council Ordinance
Determination of contribution requirements	- Actuarially determined
Employer	
General	- 0.00% of covered payroll
Police	- 0.00% of covered payroll
Fire	- 1.49% of covered payroll
Employee	
General Union	- 3.0% of the first \$4,800 of covered payroll plus 5.0% of covered payroll in excess of \$4,800
General Non-Union and Deputy Police Chief	- 1.0% of covered payroll
Deputy Fire Chief	- 2.0% of covered payroll
Patrolmen	- 6.0% of covered payroll
Command Officers	- 6.0% of covered payroll
Firemen	- 3.5% of covered payroll
Determination of benefit provision	
General Union - Clerical	- 1.3% of the first \$4,800 of covered payroll plus 1.8% of covered payroll in excess of \$4,800
General Union - DPW	- 1.3% of the first \$4,800 of covered payroll plus 2.0% of covered payroll in excess of \$4,800
Non-Union	- 2.25% of covered payroll through 7/1/2003, 2.50% thereafter
Deputy Police Chief	- 2.50% of covered payroll through 7/1/2003, 2.78% thereafter
Deputy Fire Chief	- 2.40% of covered payroll through 7/1/2003, 2.67% thereafter
Patrolmen	- 2.40% of covered payroll through 7/1/2002, 3.00% thereafter
Command Officers	- 2.50% of covered payroll through 7/1/2002, 3.00% thereafter
Firemen	- 2.50% of covered payroll through 7/1/2001, 3.00% thereafter

City of Alpena

NOTES TO FINANCIAL STATEMENTS

Funding of administrative costs	- Investment earnings
Period required to vest	- 10 years
Post-retirement benefit increases	- No regularly scheduled increases. Periodic increases may be recommended by Board and approved by City Council Ordinance. Cost of living adjustments only after employee has been retired for 5 years
Eligibility for Distribution General Non-Union	- Age 60 with 5 years, or age 55 with 15 years
Fire	- Age 62 with 10 years
Police	- Age 62 with 10 years
General Union	- Age 62 with 10 years
Provisions for Disability benefits	- Yes
Death benefits	- Yes

Membership of plan consisted of the following at December 31, 2003:

Retirees and beneficiaries receiving benefits	101
Terminated plan members entitled to but not yet receiving benefits	6
Active plan members	<u>86</u>
Total	<u>193</u>

Actuarial assumptions and other information used to determine the annual required contribution (ARC) are located in the Supplementary Information section of this report.

Annual Pension Cost, Net Pension Obligation, and Reserves.

Current Year Annual Pension Cost and Net Pension Obligation.

Current year annual pension costs for the City's retirement plan is shown in the trend information provided below. Annual required contributions were made by the plan. there was no net pension obligations for the plan.

Reserves

This information is not available at December 31, 2003.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

There are no assets legally reserved for purposes other than the payment of plan member benefits. The plan held no individual investments (other than U.S. government obligations) whose market value exceeds five percent or more of net assets available for benefits. There are no long-term contracts for contributions. The City has no financial derivative instruments or products as a part of their pension investment portfolio.

Prior Period Adjustment. GASB Statement No. 31 requires investments, such as debt and equity securities that have readily determinable fair values, to be adjusted to their fair market value each year. The following restatement was made to accommodate adjustments to certain debt securities to reflect prior year market valuations. The effect of this restatement is to reduce beginning of the year net assets. Net assets as previously reported June 30, 2003 were \$28,500,216. Net assets as restated June 30, 2003 are \$25,840,314. There is no effect on revenue or expenses for the year ended June 30, 2004.

Trend Information.

<u>Valuation Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation (NPO)</u>
1997	\$ 97,230	100%	\$0
1998	133,337	100%	0
1999	115,343	100%	0
2000	18,965	100%	0
2001	0	0%	0
2002	25,419	100%	0
2003	16,606	100%	0

The plan does not issue a stand-alone financial report.

NOTE 14--POSTRETIREMENT BENEFIT DISCLOSURES.

In addition to the pension benefits described in Note 15, the City of Alpena provides postretirement health care and life insurance benefits, in accordance with council resolution for non-union employees and negotiated labor agreements for union employees, to all covered employees who retire from the City. The City provides a City-paid \$2,000 life insurance policy for administrative, police, and fire department retirees.

There are currently 100 retirees; 57 are eligible to receive health care benefits and 57 are eligible to receive life insurance benefits. Expenditures for post retirement benefits are recognized when incurred by the City. During the year, the City's share of expenditures of \$113,738 was recognized for post retirement health care and \$684 for retiree life insurance.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 15--DEFERRED COMPENSATION PLAN.

The City of Alpena offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the City of Alpena's financial statements.

NOTE 16—SUBSEQUENT EVENTS.

On July 19, 2004, the City of Alpena, Building Authority, issued \$1,800,000 of Limited Tax General Obligation Bonds for the purpose of defraying part of the cost of acquiring, constructing, furnishing and equipping a new DPW Building. The interest rate on the bonds range from 3.10-5.10 percent and the maturity date is October 1, 2029.

NOTE 17--COMPONENT UNIT DISCLOSURES.

Cash and Cash Equivalents. The Downtown Development Authority No. 2 AND No. 5's carrying balance for deposits at June 30, 2004 was \$79,746 and the bank balance was \$79,770. Of the bank balance \$59,498 was insured.

The Economic Development Corporation's (EDC) carrying balance for deposits at June 30, 2004 was \$3,588 and the bank balance was \$3,588. Of the bank balance \$3,588 was insured.

Capital Assets. The following table summarizes the changes in the Downtown Development Authority's capital assets:

	<u>Balances, July 1, 03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances, June 30, 04</u>
Land	\$ 63,156	\$ -	\$ -	\$ 63,156
Land improvements	72,680	6,661	(1,213)	78,128
Equipment	6,605	-	-	6,605
Accumulated depreciation	<u>(29,661)</u>	<u>(3,975)</u>	<u>-</u>	<u>(33,636)</u>
Total	<u>\$ 112,780</u>	<u>\$ (2,686)</u>	<u>\$ (1,213)</u>	<u>\$ 114,253</u>

The EDC had no fixed assets.

Long-Term Debt. The Downtown Development Authority's nor the Economic Development Corporation had any long-term debt obligations at June 30, 2004.

City of Alpena

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 1,848,906	\$ 2,191,505	\$ 2,191,505	\$ -
Resources (inflows):				
Taxes	3,885,035	3,907,951	3,911,637	3,686
Licenses and permits	106,200	131,925	139,405	7,480
State revenue	2,055,960	1,856,450	1,781,445	(75,005)
Federal revenue	-	66,200	82,722	16,522
Local grant revenue	524,540	548,840	534,089	(14,751)
Charges for services	1,242,780	1,182,580	1,190,752	8,172
Investment income and rents	150,650	148,635	129,188	(19,447)
Fines and forfeitures	25,850	21,200	31,621	10,421
Other	321,400	383,610	380,854	(2,756)
Operating transfers from other funds	180,000	180,000	190,045	10,045
Amounts available for appropriation	10,341,321	10,618,896	10,563,263	(55,633)
Charges to appropriation (outflows):				
General Government				
General government	1,987,380	1,836,545	1,731,504	105,041
Building authority	37,525	37,525	37,525	-
Cemetery	152,230	135,380	128,980	6,400
	2,177,135	2,009,450	1,898,009	111,441
Public safety				
Police	1,477,220	1,440,720	1,429,904	10,816
Fire	1,234,923	1,246,700	1,151,024	95,676
Ambulance	1,031,903	1,008,645	973,228	35,417
Building inspection	114,450	117,480	118,477	(997)
	3,858,496	3,813,545	3,672,633	140,912
Public works				
Public works	1,003,200	996,780	929,610	67,170
Highways, streets and lights	170,290	169,370	138,065	31,305
	1,173,490	1,166,150	1,067,675	98,475
Parks and recreation	886,765	850,770	738,511	112,259
Contingencies	84,750	-	-	-
Operating transfers to other funds	1,189,145	1,167,000	1,167,150	(150)
Total charges to appropriations	9,369,781	9,006,915	8,543,978	462,937
Budgetary fund balance, June 30	\$ 971,540	\$ 1,611,981	\$ 2,019,285	\$ 407,304

City of Alpena

**BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS**

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
MAJOR STREET FUND				
Budgetary fund balance, July 1	\$ 592,687	\$ 774,177	\$ 774,177	\$ -
Resources (inflows):				
State revenue	1,252,600	1,102,250	886,279	(215,971)
Charges for services	-	-	54,095	54,095
Investment income and rents	17,000	13,000	13,767	767
Other	111,000	103,600	50,313	(53,287)
Amounts available for appropriation	1,973,287	1,993,027	1,778,631	(214,396)
Charges to appropriation (outflows):				
Public Works				
Administration and engineering	101,050	103,780	87,995	15,785
Construction	1,306,450	995,950	850,063	145,887
Maintenance	332,400	458,560	305,275	153,285
Maintenance - trunkline	58,900	72,900	76,289	(3,389)
Total charges to appropriations	1,798,800	1,631,190	1,319,622	311,568
Budgetary fund balance, June 30	\$ 174,487	\$ 361,837	\$ 459,009	\$ 97,172
LOCAL STREET FUND				
Budgetary fund balance, July 1	\$ 653,029	\$ 761,901	\$ 761,901	\$ -
Resources (inflows):				
State revenue	241,500	241,500	244,654	3,154
Charges for services	-	-	32,292	32,292
Investment income and rents	7,000	13,000	20,271	7,271
Other	17,550	20,000	2,805	(17,195)
Operating transfer from General Fund	825,000	825,000	825,000	-
Amounts available for appropriation	1,744,079	1,861,401	1,886,923	25,522
Charges to appropriation (outflows):				
Public Works				
Administration and engineering	170,040	150,900	141,649	9,251
Construction	592,850	511,760	415,900	95,860
Maintenance	357,740	339,280	300,521	38,759
Total charges to appropriations	1,120,630	1,001,940	858,070	143,870
Budgetary fund balance, June 30	\$ 623,449	\$ 859,461	\$ 1,028,853	\$ 169,392

City of Alpena

**BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS**

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
BUDGET STABILIZATION FUND				
Budgetary fund balance, July 1	\$ 548,000	\$ 550,000	\$ 550,000	\$ -
Resources (inflows):				
Investment income and rents	7,000	8,000	10,045	2,045
Amounts available for appropriation	555,000	558,000	560,045	2,045
Charges to appropriation (outflows):				
Operating transfer to General Fund	180,000	180,000	190,045	(10,045)
Total charges to appropriations	180,000	180,000	190,045	(10,045)
Budgetary fund balance, June 30	<u>\$ 375,000</u>	<u>\$ 378,000</u>	<u>\$ 370,000</u>	<u>\$ (8,000)</u>

City of Alpena

Nonmajor Governmental Funds

Description of Funds

Debt Service Funds

Debt Service Funds are used to record the funding and payment of principal and interest on debt.

General Debt Service Fund. This fund is used to record the servicing of the City's 1994 tax refunding bonds.

2002 G.O. Debt Service Fund. This fund is used to record the servicing of the City's 1992 general obligation bonds and the subsequent servicing of the 2002 general obligation unlimited tax refunding bonds.

Building Authority Debt Fund. This fund is used to record the servicing of the Building Authority of the City of Alpena debt.

Capital Project Funds

Capital Project Funds are used to record the acquisition and construction of major capital facilities other than those financed by proprietary fund operations.

Public Safety Facility Construction Fund. This fund is used to record renovation projects on the City Public Safety Facilities.

DPW Construction Fund. This fund is used to record construction activity of the DPW.

Building Authority Construction Fund. This fund is used to record construction activity of the Building Authority of the City of Alpena.

PERMANENT FUND

Permanent funds report resources that are legally restricted to the extent that only earnings, and not principal may be used to support operations.

Perpetual Lot Care. This fund is used to record transactions relative to perpetual care deposits in order to cover the cost of cemetery perpetual care services.

City of Alpena

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

	Debt Service Funds		
	General Debt Service	2002 G.O. Debt Service	Building Authority Debt
ASSETS			
Pooled cash and investments	\$ 11,634	\$ 4,364	\$ -
Cash and cash equivalents	-	-	100
Investments	-	-	-
Receivables (net of allowance for uncollectibles)	-	-	-
Due from other funds	-	-	-
Total assets	<u>\$ 11,634</u>	<u>\$ 4,364</u>	<u>\$ 100</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Reserved for debt service	11,634	4,364	100
Reserved for capital outlay	-	-	-
Unreserved, reported in:			
Permanent fund	-	-	-
Total fund balances	<u>11,634</u>	<u>4,364</u>	<u>100</u>
Total liabilities and fund balances	<u>\$ 11,634</u>	<u>\$ 4,364</u>	<u>\$ 100</u>

Capital Project Funds			Permanent Fund	Total
Public Safety Facility Construction	D.P.W. Construction	Building Authority Construction	Perpetual Lot Care	Nonmajor Governmental Funds
\$ 447,558	\$ 897,470	\$ -	\$ -	\$ 1,361,026
-	-	39,365	90,470	129,935
-	-	-	670,625	670,625
-	-	-	11,724	11,724
-	-	-	12,018	12,018
<u>\$ 447,558</u>	<u>\$ 897,470</u>	<u>\$ 39,365</u>	<u>\$ 784,837</u>	<u>\$ 2,185,328</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	16,098
447,558	897,470	39,365	-	1,384,393
-	-	-	784,837	784,837
<u>447,558</u>	<u>897,470</u>	<u>39,365</u>	<u>784,837</u>	<u>2,185,328</u>
<u>\$ 447,558</u>	<u>\$ 897,470</u>	<u>\$ 39,365</u>	<u>\$ 784,837</u>	<u>\$ 2,185,328</u>

City of Alpena

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2004

	Debt Service Funds		
	General Debt Service	2002 G.O. Debt Service	Building Authority Debt
REVENUES			
Taxes	\$ 241,951	\$ 82,177	\$ -
Charges for services	-	-	-
Investment income and rents	1,643	883	37,528
Other	-	-	-
Total revenues	243,594	83,060	37,528
EXPENDITURES			
Current operations			
General government	-	-	-
Public works	-	-	-
Highway, streets and lights	-	-	-
Capital outlay	-	-	-
Debt service			
Principal retirement	282,591	170,000	20,000
Interest and fees	70,407	67,415	17,525
Total expenditures	352,998	237,415	37,525
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(109,404)	(154,355)	3
OTHER FINANCING SOURCES (USES)			
Operating transfers from other funds	120,050	125,000	-
Operating transfers to other funds	-	-	-
Total other financing sources (uses)	120,050	125,000	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	10,646	(29,355)	3
FUND BALANCES , beginning of the year	988	33,719	97
FUND BALANCES , end of the year	\$ 11,634	\$ 4,364	\$ 100

Capital Project Funds			Permanent Fund	Total
Public Safety Facility Construction	D.P.W. Construction	Building Authority Construction	Perpetual Lot Care	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 324,128
-	-	-	12,110	12,110
8,145	15,723	163	1,918	66,003
-	7,509	-	3,461	10,970
8,145	23,232	163	17,489	413,211
-	-	-	34,588	34,588
-	-	-	-	-
6,810	234	530	-	7,574
-	-	-	-	472,591
-	-	-	-	155,347
6,810	234	530	34,588	670,100
1,335	22,998	(367)	(17,099)	(256,889)
-	41,600	-	-	286,650
-	-	-	-	-
-	41,600	-	-	286,650
1,335	64,598	(367)	(17,099)	29,761
446,223	832,872	39,732	801,936	2,155,567
\$ 447,558	\$ 897,470	\$ 39,365	\$ 784,837	\$ 2,185,328

City of Alpena

Internal Service Funds

Description of Funds

Internal Service Funds are used to account for the financing of special activities or services performed by a designated unit within the City for other units of the City. These funds are supported entirely by the sale of goods or services to other funds.

Equipment Fund. This fund is used to account for the rental charges of City owned equipment to other City departments.

Stores Fund. This fund is used to account for the movement of stockpiled materials and supplies.

City of Alpena

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

June 30, 2004

	Equipment	Stores	Totals
ASSETS			
Pooled cash and investments	\$ -	\$ 113,305	\$ 113,305
Investments	1,624,312	-	1,624,312
Receivables (net of allowance for uncollectable accounts)	62,964	-	62,964
Internal balances	753,361	-	753,361
Inventories	-	208,945	208,945
Prepaid items	8,150	-	8,150
Capital assets	4,304,745	-	4,304,745
Less accumulated depreciation	(3,004,007)	-	(3,004,007)
Total assets	<u>\$ 3,749,525</u>	<u>\$ 322,250</u>	<u>\$ 4,071,775</u>
LIABILITIES			
Accounts payable	\$ 4,317	\$ 2,067	\$ 6,384
Accrued payroll	4,227	-	4,227
Noncurrent liabilities			
Due within one year	26,170	-	26,170
Total liabilities	<u>34,714</u>	<u>2,067</u>	<u>36,781</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,274,568	-	1,274,568
Unrestricted	2,440,243	320,183	2,760,426
Total net assets	<u>\$ 3,714,811</u>	<u>\$ 320,183</u>	<u>\$ 4,034,994</u>

City of Alpena

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS**

Year ended June 30, 2004

	Equipment	Stores	Totals
OPERATING REVENUES			
Charges for services	\$ 1,001,902	\$ 145,839	\$ 1,147,741
Total operating revenues	<u>1,001,902</u>	<u>145,839</u>	<u>1,147,741</u>
OPERATING EXPENSES			
Salaries and wages	128,304	-	128,304
Employee benefits	67,697	-	67,697
Administrative services	192,780	41,500	234,280
Insurance	56,677	-	56,677
Maintenance	150,057	-	150,057
Depreciation	286,486	-	286,486
Supplies and other	82,014	197,646	279,660
Total operating expenses	<u>964,015</u>	<u>239,146</u>	<u>1,203,161</u>
OPERATING INCOME (LOSS)	37,887	(93,307)	(55,420)
NONOPERATING REVENUES (EXPENSES)			
Investment income and rents	(9,544)	-	(9,544)
Gain(loss) on disposal of assets	5,330	-	5,330
Interest expense	(3,521)	-	(3,521)
	<u>(7,735)</u>	<u>-</u>	<u>(7,735)</u>
INCOME (LOSS) BEFORE TRANSFERS	30,152	(93,307)	(63,155)
OPERATING TRANSFERS			
Transfers in	-	55,500	55,500
CHANGE IN NET ASSETS	<u>30,152</u>	<u>(37,807)</u>	<u>(7,655)</u>
NET ASSETS, beginning of the year	<u>3,684,659</u>	<u>357,990</u>	<u>4,042,649</u>
NET ASSETS, end of the year	<u>\$ 3,714,811</u>	<u>\$ 320,183</u>	<u>\$ 4,034,994</u>

City of Alpena

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS**

Year Ended June 30, 2004

	Equipment	Stores	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund service provided	\$ 978,200	\$ 145,839	\$ 1,124,039
Payments to suppliers	(288,768)	(167,050)	(455,818)
Payments to employees	(194,770)	-	(194,770)
Payments for interfund services used	(192,780)	(41,500)	(234,280)
Net cash provided (used) by operating activities	301,882	(62,711)	239,171
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	41,984	55,500	97,484
Net cash provided (used) by noncapital financing activities	41,984	55,500	97,484
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(467,903)	-	(467,903)
Proceeds from disposal of assets	25,423	-	25,423
Proceeds from loan	39,255	-	39,255
Principal paid on capital debt	(104,085)	-	(104,085)
Interest on capital debt	(3,521)	-	(3,521)
Net cash provided (used) by capital and related financing activities	(510,831)	-	(510,831)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(1,624,312)	-	(1,624,312)
Proceeds from sale and maturities of investment securities	1,792,766	-	1,792,766
Interest and dividends received	(1,489)	-	(1,489)
Net cash provided (used) by investing activities	166,965	-	166,965
Net increase (decrease) in cash and cash equivalents	-	(7,211)	(7,211)
CASH AND CASH EQUIVALENTS, beginning of the year	-	120,516	120,516
CASH AND CASH EQUIVALENTS, end of the year	\$ -	\$ 113,305	\$ 113,305

City of Alpena

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS - Continued**

Year Ended June 30, 2004

	<u>Equipment</u>	<u>Stores</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 37,887	\$ (93,307)	\$ (55,420)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	286,486	-	286,486
(Increase) decrease in receivables	(23,702)	-	(23,702)
(Increase) decrease in inventories	-	30,271	30,271
(Increase) decrease in prepaid items	4,075	-	4,075
Increase (decrease) in payables	(4,095)	325	(3,770)
Increase (decrease) in accrued payroll	1,231	-	1,231
	<u>\$ 301,882</u>	<u>\$ (62,711)</u>	<u>\$ 239,171</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Increase (decrease) in fair value of investments	<u>\$ 62,501</u>	<u>\$ -</u>	<u>\$ 62,501</u>

City of Alpena

Fiduciary Funds

Description of Funds

PENSION TRUST FUND

Pension Trust Fund. This fund is a trust fund used to record the activity of the City's pension plan. It was created and is operated under guidance of the Charter of the City of Alpena. The pension plan is financed by contributions from both the employees and the City.

Employee Health Care Fund. This fund is a trust fund used to record employee health care costs. The fund is financed by contributions from the City.

AGENCY FUNDS

General Trust. This fund is used to account for taxes collected on behalf of other governmental units.

Special Trust. This fund is used to account for all other trust activity.

City of Alpena

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

June 30, 2004

	Pension (and other employee benefit) Trust Funds		Totals
	Pension Trust Fund	Employee Health Care Fund	
ASSETS			
Cash and cash equivalents	\$ 1,826,050	\$ 107,159	\$ 1,933,209
Investments	25,211,381	-	25,211,381
Interest receivable	134,293	-	134,293
	<u>27,171,724</u>	<u>107,159</u>	<u>27,278,883</u>
LIABILITIES			
Accounts payable	<u>29,309</u>	<u>-</u>	<u>29,309</u>
	<u>29,309</u>	<u>-</u>	<u>29,309</u>
NET ASSETS			
Reserved for employees retirement and other purposes	<u>27,142,415</u>	<u>107,159</u>	<u>27,249,574</u>
	<u>\$ 27,142,415</u>	<u>\$ 107,159</u>	<u>\$ 27,249,574</u>

City of Alpena

COMBINING STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

June 30, 2004

	Pension (and other employee benefit) Trust Funds		Totals
	Pension Trust Fund	Employee Health Care Fund	
ADDITIONS			
Contributions			
Employer	\$ 16,606	\$ 167,170	\$ 183,776
Employees	151,545	-	151,545
Other	5,362	-	5,362
Total contributions	<u>173,513</u>	<u>167,170</u>	<u>340,683</u>
Investment income			
Net increase (decrease) in fair value of investments	2,025,484	-	2,025,484
Interest	693,116	950	694,066
Dividends	<u>188,317</u>	<u>-</u>	<u>188,317</u>
	2,906,917	950	2,907,867
Less investment expense	<u>83,749</u>	<u>-</u>	<u>83,749</u>
Net investment income	<u>2,823,168</u>	<u>950</u>	<u>2,824,118</u>
Total additions	<u>2,996,681</u>	<u>168,120</u>	<u>3,164,801</u>
DEDUCTIONS			
Benefits	1,398,820	113,739	1,512,559
Lump-sum retirement payments	211,467	-	211,467
Refund of contributions	7,606	-	7,606
Administrative expense	<u>23,909</u>	<u>-</u>	<u>23,909</u>
Total deductions	<u>1,641,802</u>	<u>113,739</u>	<u>1,755,541</u>
Change in net assets	1,354,879	54,381	1,409,260
Net assets - beginning of the year	<u>25,787,536</u>	<u>52,778</u>	<u>25,840,314</u>
Net assets - end of the year	<u>\$ 27,142,415</u>	<u>\$ 107,159</u>	<u>\$ 27,249,574</u>

City of Alpena

**COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - ALL AGENCY FUNDS**

Year Ended June 30, 2004

	Balances, June 30, 2003	Additions	Deductions	Balances, June 30, 2004
GENERAL TRUST FUND				
ASSETS				
Cash and cash equivalents	\$ 15,117	\$ 2,580,851	\$ 2,580,218	\$ 15,750
Taxes receivable	6,612	2,737,229	2,733,889	9,952
	<u>\$ 21,729</u>	<u>\$ 5,318,080</u>	<u>\$ 5,314,107</u>	<u>\$ 25,702</u>
LIABILITIES				
Accounts payable	\$ 15,117	\$ 1,067	\$ 434	\$ 15,750
Due to other governmental units	6,612	2,583,311	2,579,971	9,952
	<u>\$ 21,729</u>	<u>\$ 2,584,378</u>	<u>\$ 2,580,405</u>	<u>\$ 25,702</u>
SPECIAL TRUST FUND				
ASSETS				
Cash and cash equivalents	\$ 33,780	\$ 8,606	\$ 9,486	\$ 32,900
	<u>\$ 33,780</u>	<u>\$ 8,606</u>	<u>\$ 9,486</u>	<u>\$ 32,900</u>
LIABILITIES				
Accounts payable	\$ 33,780	\$ 8,606	\$ 9,486	\$ 32,900
	<u>\$ 33,780</u>	<u>\$ 8,606</u>	<u>\$ 9,486</u>	<u>\$ 32,900</u>
TOTALS, ALL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 48,897	\$ 2,589,457	\$ 2,589,704	\$ 48,650
Taxes receivable	6,612	2,737,229	2,733,889	9,952
	<u>\$ 55,509</u>	<u>\$ 5,326,686</u>	<u>\$ 5,323,593</u>	<u>\$ 58,602</u>
LIABILITIES				
Accounts payable	\$ 48,897	\$ 9,673	\$ 9,920	\$ 48,650
Due to other governmental units	6,612	2,583,311	2,579,971	9,952
	<u>\$ 55,509</u>	<u>\$ 2,592,984</u>	<u>\$ 2,589,891</u>	<u>\$ 58,602</u>

City of Alpena

General Fund

Description of Fund

The General Fund is used to account for all financial transactions not properly accounted for in another fund. The transactions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues, and by revenues from various municipal activities and services, are recorded in this fund. Costs for City administration are accounted for in this fund. Other operating funds make contributions to the General Fund for overhead or administrative costs which are allocated to each fund.

City of Alpena

General Fund

COMPARATIVE BALANCE SHEET

	June 30,	
	2004	2003
ASSETS		
Cash and cash equivalents	\$ 413,158	\$ 317,309
Investments	3,772,226	3,297,568
Accounts receivable	193,550	147,031
Special assessments receivable	160,534	107,827
Taxes receivable	12,888	10,586
Interest receivable	16,220	23,605
Due from other governmental units	232,807	233,800
Due from other funds	27,973	27,341
Total assets	<u>\$ 4,829,356</u>	<u>\$ 4,165,067</u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 245,969	\$ 165,294
Accrued payroll	122,412	91,841
Due to other funds	2,256,520	1,592,787
Due to component units	11,748	5,227
Deferred revenue	173,422	118,413
Total liabilities	<u>2,810,071</u>	<u>1,973,562</u>
Fund equity		
Fund balances		
Unreserved		
Undesignated	2,019,285	2,191,505
Total fund equity	<u>2,019,285</u>	<u>2,191,505</u>
Total liabilities and fund equity	<u>\$ 4,829,356</u>	<u>\$ 4,165,067</u>

City of Alpena

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL**

	Year Ended June 30, 2004			
	Budgeted Amounts		Actual	2003
	Original	Final	Amounts	Actual
REVENUES				
TAXES				
Current property	\$ 3,669,835	\$ 3,697,350	\$ 3,702,042	\$ 3,827,182
Other	215,200	210,601	209,595	58,904
	<u>3,885,035</u>	<u>3,907,951</u>	<u>3,911,637</u>	<u>3,886,086</u>
LICENSES AND PERMITS	<u>106,200</u>	<u>131,925</u>	<u>139,405</u>	<u>82,087</u>
STATE REVENUE				
Sales tax	1,554,710	1,489,600	1,482,054	1,535,044
Grants	501,250	366,850	299,391	418,824
	<u>2,055,960</u>	<u>1,856,450</u>	<u>1,781,445</u>	<u>1,953,868</u>
FEDERAL REVENUE	<u>-</u>	<u>66,200</u>	<u>82,722</u>	<u>148,611</u>
LOCAL GRANT REVENUE	<u>524,540</u>	<u>548,840</u>	<u>534,089</u>	<u>497,800</u>
CHARGES FOR SERVICES				
Ambulance	598,000	561,000	596,332	481,369
Cemetery	65,700	62,750	52,797	57,785
Sidewalks and trees	58,000	63,000	45,569	83,606
Skating	-	-	-	110,015
Water department	86,800	86,800	86,800	84,250
Sewage department	103,000	103,000	103,000	100,000
Stores	41,500	41,500	41,500	40,280
Perpetual lot care	34,000	34,000	34,439	33,654
Equipment	192,780	192,780	192,780	187,160
Retirement	22,300	22,300	22,300	21,650
Other	40,700	15,450	15,235	16,805
	<u>1,242,780</u>	<u>1,182,580</u>	<u>1,190,752</u>	<u>1,216,574</u>
INVESTMENT INCOME AND RENTS	<u>150,650</u>	<u>148,635</u>	<u>129,188</u>	<u>174,183</u>
FINES AND FORFEITURES	<u>25,850</u>	<u>21,200</u>	<u>31,621</u>	<u>21,215</u>
OTHER				
Downtown Development Authority No.2	10,000	10,000	10,000	10,000
Reimbursements and refunds	79,500	81,890	125,964	175,989
Sale of assets	64,500	188,870	125,000	110,616
Miscellaneous	167,400	102,850	119,890	63,110
	<u>321,400</u>	<u>383,610</u>	<u>380,854</u>	<u>359,715</u>
Total revenues	<u>8,312,415</u>	<u>8,247,391</u>	<u>8,181,713</u>	<u>8,340,139</u>

(continued)

City of Alpena

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL -continued**

	Year Ended June 30, 2004			
	Budgeted Amounts		Actual Amounts	2003 Actual
	Original	Final		
EXPENDITURES				
GENERAL GOVERNMENT				
GENERAL GOVERNMENT				
Salaries and wages	\$ 633,300	\$ 657,760	\$ 668,742	\$ 622,018
Employee benefits	248,260	227,150	212,410	207,340
Supplies	66,000	63,500	64,152	63,059
Contracted services	120,000	171,160	110,657	127,171
Continuing education and travel	56,500	23,800	21,044	30,771
Public relations	97,800	84,000	69,635	109,325
Insurance	18,000	2,000	69,836	11,511
Utilities	35,800	35,000	34,975	35,633
Repairs and maintenance	26,000	25,000	21,867	41,146
Equipment rental	141,100	151,700	151,679	143,094
Miscellaneous	498,120	347,110	288,255	274,069
Capital outlay	46,500	48,365	18,252	26,198
	<u>1,987,380</u>	<u>1,836,545</u>	<u>1,731,504</u>	<u>1,691,335</u>
BUILDING AUTHORITY				
Lease - Lakeside	37,525	37,525	37,525	-
	<u>37,525</u>	<u>37,525</u>	<u>37,525</u>	<u>-</u>
CEMETERY				
Salaries and wages	62,000	62,000	64,422	61,382
Employee benefits	33,780	23,730	21,659	25,754
Supplies	3,500	3,400	2,714	3,418
Contracted services	300	300	428	291
Continuing education and travel	600	400	419	148
Insurance	2,550	3,250	3,244	4,024
Utilities	7,500	10,500	9,444	8,821
Repairs and maintenance	8,800	8,800	6,270	4,566
Equipment rental	22,900	22,900	20,198	18,482
Miscellaneous	300	100	182	25
Capital outlay	10,000	-	-	11,901
	<u>152,230</u>	<u>135,380</u>	<u>128,980</u>	<u>138,812</u>
Total General Government	<u>2,177,135</u>	<u>2,009,450</u>	<u>1,898,009</u>	<u>1,830,147</u>

City of Alpena

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL**

	Year Ended June 30, 2004			
	Budgeted Amounts		Actual Amounts	2003 Actual
	Original	Final		
EXPENDITURES (continued)				
PUBLIC SAFETY				
POLICE				
Salaries and wages	\$ 920,000	\$ 925,000	\$ 920,455	\$ 876,778
Employee benefits	291,950	255,250	259,190	257,622
Supplies	15,100	15,100	16,097	16,438
Contracted services	48,300	43,900	44,279	40,269
Continuing education and travel	13,750	13,200	11,545	17,236
Insurance	36,250	42,200	42,161	24,870
Utilities	31,000	34,300	32,448	31,885
Repairs and maintenance	59,250	56,750	52,292	64,761
Equipment rental	32,120	30,980	30,825	30,114
Miscellaneous	3,500	4,040	3,318	4,390
Capital outlay	26,000	20,000	17,294	78,461
	<u>1,477,220</u>	<u>1,440,720</u>	<u>1,429,904</u>	<u>1,442,824</u>
FIRE				
Salaries and wages	615,300	615,300	603,001	586,525
Employee benefits	239,078	210,650	203,291	191,813
Supplies	20,200	33,000	30,830	36,681
Contracted services	10,000	6,000	4,184	7,687
Continuing education and travel	6,400	6,000	6,174	5,536
Insurance	20,225	26,300	26,306	15,261
Utilities	14,500	15,000	14,191	13,744
Repairs and maintenance	26,500	18,250	18,965	25,753
Hydrant rental	59,600	59,600	59,600	59,600
Equipment rental	173,420	172,850	172,803	171,652
Miscellaneous	4,000	5,250	4,517	4,016
Capital outlay	45,700	78,500	7,162	50,027
	<u>1,234,923</u>	<u>1,246,700</u>	<u>1,151,024</u>	<u>1,168,295</u>
AMBULANCE				
Salaries and wages	610,000	610,000	602,510	596,507
Employee benefits	232,353	208,900	197,343	187,088
Supplies	12,000	11,800	11,798	13,740
Contracted services	84,000	77,500	63,982	81,821
Continuing education and travel	7,500	7,500	6,307	8,891
Insurance	19,200	28,570	28,563	13,345
Utilities	14,500	14,500	13,911	13,520
Repairs and maintenance	25,100	25,500	24,646	24,910
Equipment rental	17,250	15,875	15,894	15,538
Miscellaneous	4,000	4,000	4,433	3,934
Capital outlay	6,000	4,500	3,841	14,576
	<u>1,031,903</u>	<u>1,008,645</u>	<u>973,228</u>	<u>973,870</u>

(continued)

City of Alpena

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL - continued**

EXPENDITURES (continued)	Year Ended June 30, 2004			2003 Actual
	Budgeted Amounts		Actual Amounts	
	Original	Final		
PUBLIC SAFETY (continued)				
BUILDING INSPECTION				
Salaries and wages	\$ 59,000	\$ 63,700	\$ 65,286	\$ 55,103
Employee benefits	26,425	27,925	27,751	21,758
Supplies	6,000	5,995	6,735	4,598
Contracted services	1,600	1,600	2,111	2,070
Continuing education and travel	2,500	2,000	1,391	957
Insurance	5,175	1,960	1,961	5,603
Utilities	1,500	1,800	1,739	1,779
Repairs and maintenance	1,200	1,600	1,141	2,153
Equipment rental	6,350	6,200	6,119	5,872
Office rent	4,000	4,000	3,716	3,716
Miscellaneous	700	700	527	990
	<u>114,450</u>	<u>117,480</u>	<u>118,477</u>	<u>104,599</u>
Total Public Safety	<u>3,858,496</u>	<u>3,813,545</u>	<u>3,672,633</u>	<u>3,689,588</u>
PUBLIC WORKS				
PUBLIC WORKS				
Salaries and wages	200,000	163,100	153,215	135,315
Employee benefits	44,000	62,000	40,061	45,733
Supplies	43,000	35,500	29,106	37,537
Contracted services	96,000	79,100	78,254	81,934
Continuing education and travel	3,000	1,000	868	1,034
Insurance	17,500	24,200	23,590	11,585
Utilities	31,000	31,000	30,810	29,719
Repairs and maintenance	147,000	144,000	119,954	19,174
Equipment rental	87,400	96,400	102,916	92,776
Miscellaneous	500	16,400	15,919	-
Capital outlay	333,800	344,080	334,917	274,103
	<u>1,003,200</u>	<u>996,780</u>	<u>929,610</u>	<u>728,910</u>
HIGHWAYS, STREETS AND LIGHTS				
Salaries and wages	13,500	13,500	14,634	15,797
Employee benefits	7,890	8,600	8,356	8,690
Supplies	300	900	577	94
Contracted services	28,000	14,700	12,715	22,434
Insurance	600	970	965	1,567
Utilities	73,000	71,000	70,071	71,514
Repairs and maintenance	10,000	22,700	21,193	7,576
Equipment rental	8,000	8,000	7,957	10,809
Capital outlay	29,000	29,000	1,597	5,408
	<u>170,290</u>	<u>169,370</u>	<u>138,065</u>	<u>143,889</u>
Total Public Works	<u>1,173,490</u>	<u>1,166,150</u>	<u>1,067,675</u>	<u>872,799</u>

City of Alpena

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL**

EXPENDITURES (continued)	Year Ended June 30, 2004			2003 Actual
	Budgeted Amounts		Actual Amounts	
	Original	Final		
PARKS AND RECREATION				
Salaries and wages	\$ 165,000	\$ 154,400	\$ 147,180	\$ 205,065
Employee benefits	60,465	56,290	54,954	57,389
Supplies	4,700	2,900	2,831	4,336
Contracted services	19,000	28,000	22,153	2,500
Continuing education and travel	500	-	153	8
City Band	11,000	11,000	11,000	11,000
Community Events Center	3,000	2,300	1,964	84,500
Advertising	6,000	6,000	3,015	6,532
Insurance	14,000	23,550	23,535	18,264
Utilities	22,000	17,000	17,739	37,639
Repairs and maintenance	119,200	99,500	96,412	112,442
Equipment rental	125,000	125,000	148,485	182,178
Miscellaneous	47,500	47,500	47,317	333
Capital outlay	289,400	277,330	161,773	737,267
	<u>886,765</u>	<u>850,770</u>	<u>738,511</u>	<u>1,459,453</u>
CONTINGENCIES	<u>84,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>8,180,636</u>	<u>7,839,915</u>	<u>7,376,828</u>	<u>7,851,987</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>131,779</u>	<u>407,476</u>	<u>804,885</u>	<u>488,152</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds:				
Budget Stabilization Fund	<u>180,000</u>	<u>180,000</u>	<u>190,045</u>	<u>10,996</u>
	<u>180,000</u>	<u>180,000</u>	<u>190,045</u>	<u>10,996</u>
Operating transfers to other funds:				
Local Street Fund	(825,000)	(825,000)	(825,000)	(1,005,000)
General Debt Service Fund	(142,045)	(119,900)	(120,050)	(186,050)
1992 G.O. Debt Service Fund	(125,000)	(125,000)	(125,000)	(125,000)
D.P.W. Construction Fund	(41,600)	(41,600)	(41,600)	-
Stores Fund	(55,500)	(55,500)	(55,500)	(55,500)
	<u>(1,189,145)</u>	<u>(1,167,000)</u>	<u>(1,167,150)</u>	<u>(1,371,550)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,009,145)</u>	<u>(987,000)</u>	<u>(977,105)</u>	<u>(1,360,554)</u>

(continued)

City of Alpena

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL - continued**

	Year Ended June 30, 2004			2003 Actual
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (877,366)	\$ (579,524)	\$ (172,220)	\$ (872,402)
FUND BALANCES, beginning of year	1,848,906	2,191,505	2,191,505	3,063,907
FUND BALANCES, end of year	\$ 971,540	\$ 1,611,981	\$ 2,019,285	\$ 2,191,505

City of Alpena

Water Fund

COMPARATIVE BALANCE SHEET

	June 30,	
	2004	2003
ASSETS		
Current assets		
Pooled cash and investments	\$ 144,599	\$ 598,166
Investments	1,000,038	500,000
Accounts receivable	537,586	537,889
Special assessments receivable	847	1,693
Interest receivable	7,217	1,405
Due from other funds	51,556	51,556
Prepaid items	-	-
Total current assets	<u>1,741,843</u>	<u>1,690,709</u>
Noncurrent assets		
Deferred charges	<u>20,875</u>	<u>22,375</u>
Capital assets	10,270,869	10,032,849
Less accumulated depreciation	<u>(4,302,051)</u>	<u>(4,106,832)</u>
	<u>5,968,818</u>	<u>5,926,017</u>
Total noncurrent assets	<u>5,989,693</u>	<u>5,948,392</u>
Total assets	<u>\$ 7,731,536</u>	<u>\$ 7,639,101</u>
LIABILITIES AND FUND EQUITY		
Current liabilities		
Accounts payable	\$ 12,117	\$ 10,965
Accrued payroll	360	848
Accrued interest payable	21,256	22,037
Unearned revenue	847	1,693
Current portion of long-term debt	<u>50,000</u>	<u>50,000</u>
Total current liabilities	<u>84,580</u>	<u>85,543</u>
Long-term debt	<u>1,700,000</u>	<u>1,750,000</u>
Total liabilities	<u>1,784,580</u>	<u>1,835,543</u>
Fund equity		
Retained earnings		
Reserved for debt retirement	179,250	179,250
Reserved for capital outlay	51,973	114,568
Unreserved	<u>5,715,733</u>	<u>5,509,740</u>
Total fund equity	<u>5,946,956</u>	<u>5,803,558</u>
Total liabilities and fund equity	<u>\$ 7,731,536</u>	<u>\$ 7,639,101</u>

City of Alpena

Water Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS**

	Years Ended June 30,	
	2004	2003
OPERATING REVENUES		
Charges for services	\$ 1,370,203	\$ 1,427,143
Other	20,080	20,821
Total operating revenues	<u>1,390,283</u>	<u>1,447,964</u>
OPERATING EXPENSES		
Production		
Contracted services	466,306	461,433
Utilities	83,272	91,668
Depreciation	61,847	60,024
Supplies and other	69,233	74,463
	<u>680,658</u>	<u>687,588</u>
Distribution		
Salaries and wages	26,670	26,156
Employee benefits	708	666
Contracted services	143,784	159,862
Maintenance	3,590	7,365
Equipment rental	22,914	26,090
Depreciation	139,884	138,001
Supplies and other	685	3
	<u>338,235</u>	<u>358,143</u>
Commercial and general		
Employee benefits	12,128	10,034
Administrative services	87,200	84,250
Contracted services	37,619	36,133
Insurance	21,922	22,634
	<u>158,869</u>	<u>153,051</u>
Total operating expenses	<u>1,177,762</u>	<u>1,198,782</u>
OPERATING INCOME (LOSS)	<u>212,521</u>	<u>249,182</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income and rents	21,642	23,656
Gain (loss) on disposal of assets	(3,308)	-
Interest expense	(87,457)	(90,581)
	<u>(69,123)</u>	<u>(66,925)</u>
NET INCOME (LOSS) FOR THE YEAR	143,398	182,257
RETAINED EARNINGS, beginning of the year	<u>5,803,558</u>	<u>5,621,301</u>
RETAINED EARNINGS, end of the year	<u>\$ 5,946,956</u>	<u>\$ 5,803,558</u>

City of Alpena

Water Fund

COMPARATIVE STATEMENT OF CASH FLOWS

	Years Ended June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,390,586	\$ 1,497,099
Payments to suppliers	(848,173)	(985,690)
Payments to employees	(39,994)	(36,238)
Payments for interfund services used	(87,200)	(84,250)
Net cash provided (used) by operating activities	415,219	390,921
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from (to) other funds	-	-
Net cash provided (used) by noncapital financing activities	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(247,840)	(60,440)
Principal paid on capital debt	(50,000)	(50,000)
Interest paid on capital debt	(86,738)	(89,863)
Proceeds from disposal of capital assets	-	-
Net cash provided (used) by capital and related financing activities	(384,578)	(200,303)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	500,000	-
Purchase of investments	(1,000,038)	(500,000)
Interest and dividends received	15,830	22,251
Net cash provided (used) by investing activities	(484,208)	(477,749)
Net increase (decrease) in cash and cash equivalents	(453,567)	(287,131)
CASH AND CASH EQUIVALENTS, beginning of the year	598,166	885,297
CASH AND CASH EQUIVALENTS, end of the year	\$ 144,599	\$ 598,166

City of Alpena

Water Fund

COMPARATIVE STATEMENT OF CASH FLOWS

	Years Ended June 30,	
	2004	2003
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 212,521	\$ 249,182
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	201,731	198,025
(Increase) decrease in accounts receivable	303	49,135
(Increase) decrease in special assessments receivable	846	847
(Increase) decrease in prepaid items	-	1,680
Increase (decrease) in accounts payable	1,152	(107,719)
Increase (decrease) in accrued payroll	(488)	618
Increase (decrease) in unearned revenue	(846)	(847)
Net cash provided (used) by operating activities	<u>\$ 415,219</u>	<u>\$ 390,921</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	<u>\$ (2)</u>	<u>\$ -</u>

City of Alpena

Sewage Fund

COMPARATIVE BALANCE SHEET

	June 30,	
	2004	2003
ASSETS		
Current assets		
Pooled cash and investments	\$ 414,127	\$ 722,573
Investments	799,829	500,000
Accounts receivable	139,946	141,338
Special assessments receivable	1,694	3,388
Interest receivable	5,163	1,467
Prepaid items	-	-
Total current assets	<u>1,360,759</u>	<u>1,368,766</u>
Noncurrent assets		
Deferred charges	<u>20,875</u>	<u>22,375</u>
Capital assets	21,970,404	21,214,726
Less accumulated depreciation	<u>(7,887,255)</u>	<u>(7,413,535)</u>
	<u>14,083,149</u>	<u>13,801,191</u>
Total noncurrent assets	<u>14,104,024</u>	<u>13,823,566</u>
Total assets	<u>\$ 15,464,783</u>	<u>\$ 15,192,332</u>
LIABILITIES AND FUND EQUITY		
Current liabilities		
Accounts payable	\$ 24,164	\$ 121,775
Accrued payroll	928	1,174
Accrued interest payable	21,256	22,037
Unearned revenue	1,694	3,388
Current portion of long-term debt	<u>50,000</u>	<u>50,000</u>
Total current liabilities	<u>98,042</u>	<u>198,374</u>
Long-term debt	<u>1,700,000</u>	<u>1,750,000</u>
Total liabilities	<u>1,798,042</u>	<u>1,948,374</u>
Fund equity		
Retained earnings		
Reserved for debt retirement	179,250	179,250
Reserved for capital outlay	393,478	168,175
Unreserved	<u>13,094,013</u>	<u>12,896,533</u>
Total fund equity	<u>13,666,741</u>	<u>13,243,958</u>
Total liabilities and fund equity	<u>\$ 15,464,783</u>	<u>\$ 15,192,332</u>

City of Alpena

Sewage Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS**

	Years Ended June 30,	
	2004	2003
OPERATING REVENUES		
Charges for services	\$ 1,752,932	\$ 1,530,070
Other	11,671	41,548
Total operating revenues	<u>1,764,603</u>	<u>1,571,618</u>
OPERATING EXPENSES		
Treatment plant		
Employee benefits	912	912
Administrative services	103,000	100,000
Contracted services	523,379	503,738
Insurance	41,112	33,695
Utilities	194,977	195,197
Depreciation	264,137	245,172
Supplies and other	39,911	36,859
	<u>1,167,428</u>	<u>1,115,573</u>
Collection system		
Salaries and wages	21,795	25,719
Employee benefits	9,197	9,622
Contracted services	167,694	168,724
Utilities	16,574	15,122
Maintenance	8,206	16,907
Equipment rental	16,933	23,993
Depreciation	219,368	209,474
Supplies and other	476	-
	<u>460,243</u>	<u>469,561</u>
Total operating expenses	<u>1,627,671</u>	<u>1,585,134</u>
OPERATING INCOME (LOSS)	<u>136,932</u>	<u>(13,516)</u>
NONOPERATING REVENUES (EXPENSES)		
State revenue	94,151	210,914
Federal revenue	261,884	-
Investment income and rents	18,099	35,196
Gain (loss) on disposal of assets	(827)	1,845
Interest expense	(87,456)	(90,581)
	<u>285,851</u>	<u>157,374</u>
NET INCOME (LOSS) FOR THE YEAR	422,783	143,858
RETAINED EARNINGS, beginning of the year	<u>13,243,958</u>	<u>13,100,100</u>
RETAINED EARNINGS, end of the year	<u>\$ 13,666,741</u>	<u>\$ 13,243,958</u>

City of Alpena

Sewage Fund

COMPARATIVE STATEMENT OF CASH FLOWS

	Years Ended June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,765,995	\$ 1,575,734
Payments to suppliers	(1,106,873)	(1,031,420)
Payments to employees	(32,150)	(35,684)
Payments for interfund services used	(103,000)	(100,000)
Net cash provided (used) by operating activities	523,972	408,630
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State grants	94,151	210,914
Federal grants	261,884	-
Net cash provided (used) by noncapital financing activities	356,035	210,914
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(832,109)	(1,303,720)
Principal paid on capital debt	(50,000)	(50,000)
Interest paid on capital debt	(86,737)	(89,863)
Proceeds from disposal of capital assets	65,819	442,844
Net cash provided (used) by capital and related financing activities	(903,027)	(1,000,739)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	500,000	1,644,000
Purchase of investments	(799,829)	(1,022,000)
Interest and dividends received	14,403	48,408
Net cash provided (used) by investing activities	(285,426)	670,408
Net increase (decrease) in cash and cash equivalents	(308,446)	289,213
CASH AND CASH EQUIVALENTS, beginning of the year	722,573	433,360
CASH AND CASH EQUIVALENTS, end of the year	\$ 414,127	\$ 722,573

City of Alpena

Sewage Fund

COMPARATIVE STATEMENT OF CASH FLOWS

	Years Ended June 30,	
	2004	2003
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 136,932	\$ (13,516)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	483,505	454,646
(Increase) decrease in accounts receivable	1,392	4,116
(Increase) decrease in special assessments receivable	1,694	2,129
(Increase) decrease in due from other funds	-	-
(Increase) decrease in prepaid items	-	1,900
Increase (decrease) in accounts payable	(97,611)	(39,085)
Increase (decrease) in accrued payroll	(246)	569
Increase (decrease) in unearned revenue	(1,694)	(2,129)
Net cash provided (used) by operating activities	<u>\$ 523,972</u>	<u>\$ 408,630</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	<u>\$ (203)</u>	<u>\$ 9,468</u>

City of Alpena

SCHEDULE OF INDEBTEDNESS

June 30, 2004

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
ENTERPRISE FUNDS				
City of Alpena, Water Supply	6.25%	2004/05	\$ 100,000	\$ 166,925
and Sewage Disposal System	6.25%	2005/06	150,000	159,113
Revenue Bonds	6.25%	2006/07	150,000	149,737
Date of Issue: May 18, 1998	6.25%	2007/08	200,000	138,800
Amount of Issue: \$4,000,000	4.90%	2008/09	200,000	126,300
	4.50%	2009/10	200,000	115,150
	4.50%	2010/11	250,000	104,625
	4.50%	2011/12	250,000	93,375
	4.50%	2012/13	250,000	82,125
	4.50%	2013/14	250,000	70,875
	4.50%	2014/15	300,000	58,500
	4.50%	2015/16	300,000	45,000
	4.25%	2016/17	300,000	31,875
	4.25%	2017/18	300,000	19,125
	4.25%	2018/19	300,000	6,375
Total Enterprise Funds			<u>3,500,000</u>	<u>1,367,900</u>
INTERNAL SERVICE FUNDS				
City of Alpena, Installment				
Purchase Agreement				
Date of Issue: May 10, 2004				
Amount of Issue: \$39,255	0.00%	2004/05	13,085	-
	0.00%	2005/06	13,085	-
Total Internal Service Funds			<u>26,170</u>	<u>-</u>
GENERAL LONG-TERM DEBT ACCOUNT GROUP				
City of Alpena, Alpena County	4.75%	2004/05	180,000	40,675
Sanitary Sewage Unlimited	4.80%	2005/06	175,000	32,200
Tax Refunding Bonds	5.00%	2006/07	175,000	23,625
Date of Issue: January 12, 1994	5.00%	2007/08	195,000	14,375
Amount of Issue: \$2,705,000	5.00%	2008/09	190,000	4,750
			<u>915,000</u>	<u>115,625</u>

City of Alpena

SCHEDULE OF INDEBTEDNESS

June 30, 2004

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
GENERAL LONG-TERM DEBT				
ACCOUNT GROUP (continued)				
City of Alpena, 2000 Land Purchase	3.750%	2004/05	\$ 40,541	\$ 14,786
Bank Loan	3.750%	2005/06	40,541	13,245
Date of Issue: August 11, 2000	3.750%	2006/07	40,541	11,704
Amount of Issue: \$880,000	3.750%	2007/08	40,541	10,190
	3.750%	2008/09	40,541	8,621
	3.750%	2009/10	40,541	7,079
	3.750%	2010/11	40,541	5,538
	3.750%	2011/12	40,541	4,008
	3.750%	2012/13	-	2,455
	3.750%	2013/14	64,575	2,455
			<u>388,903</u>	<u>80,081</u>
City of Alpena, Building Authority	4.000%	2004/05	20,000	16,225
2001 Building Authority Bonds	4.000%	2005/06	25,000	15,325
Date of Issue: September 15, 2001	4.000%	2006/07	25,000	14,325
Amount of Issue: \$400,000	4.100%	2007/08	25,000	13,325
	4.200%	2008/09	25,000	12,313
	4.300%	2009/10	30,000	11,170
	4.400%	2010/11	30,000	9,895
	4.500%	2011/12	30,000	8,590
	4.600%	2012/13	35,000	7,142
	4.700%	2013/14	40,000	5,435
	4.800%	2014/15	45,000	3,458
	4.800%	2015/16	50,000	1,200
			<u>380,000</u>	<u>118,403</u>
City of Alpena	3.500%	2004/05	165,000	61,278
2002 General Obligation Unlimited	3.500%	2005/06	165,000	55,502
Tax Refunding Bonds	3.500%	2006/07	210,000	48,940
Date of Issue: February 28, 2002	3.600%	2007/08	205,000	41,575
Amount of Issue: \$1,995,000	3.800%	2008/09	225,000	33,610
	4.000%	2009/10	225,000	24,835
	4.100%	2010/11	245,000	15,312
	4.200%	2011/12	245,000	5,145
			<u>1,685,000</u>	<u>286,197</u>

(continued)

City of Alpena

SCHEDULE OF INDEBTEDNESS - continued

June 30, 2004

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
GENERAL LONG-TERM DEBT ACCOUNT GROUP (continued)				
Accrued sick pay liability			\$ 206,662	\$ -
Accrued vacation liability			<u>218,263</u>	<u>-</u>
Total General Long-Term Debt Account Group			<u>3,793,828</u>	<u>600,306</u>
Total Long-Term Debt			<u>\$ 7,319,998</u>	<u>\$ 1,968,206</u>

III. STATISTICAL SECTION

The Statistical Section Contains:

- A. Data reflecting financial, social, and economic trends of the City in 2004 and prior years**

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1) - Unaudited

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 1

Fiscal Year Ended	General Government			Public Works	
	General Government	Cemetery	Public Safety (2)	Public Works	Highway, Streets and Lights
06/30/95	\$ 980,482	\$ 152,505	\$ 2,878,648	\$ 587,301	\$ 1,039,289
06/30/96	1,013,040	158,802	3,004,898	362,227	1,300,083
06/30/97	1,062,312	157,049	3,204,408	605,614	1,601,172
06/30/98	1,128,687	159,869	3,151,145	523,487	1,878,916
06/30/99	1,375,844	173,338	3,449,841	643,336	1,928,300
06/30/00	1,452,168	162,112	3,463,289	619,469	3,272,755
06/30/01	2,155,514	166,917	3,592,374	664,400	2,684,938
06/30/02	1,842,470	161,507	3,740,259	709,148	1,822,690
06/30/03	1,795,934	172,547	3,584,989	728,910	1,661,368
06/30/04	1,766,092	166,505	3,672,633	929,610	2,315,757

(1) Includes General, Permanent, Special Revenue, Debt Service, and Capital Project Funds
(2) Includes Police, Fire, Ambulance, Building inspection expenditures

GENERAL GOVERNMENTAL REVENUES BY SOURCE (1) - Unaudited

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 2

Fiscal Year Ended	Taxes	Licenses and Permits	State and Federal Revenues	Local Grants	Charges For Services
06/30/95	\$ 3,403,047	\$ 196,763	\$ 2,191,055	\$ 483,403	\$ 1,039,231
06/30/96	3,493,471	90,966	2,425,845	517,800	1,227,375
06/30/97	3,619,894	79,167	2,187,507	466,745	1,310,005
06/30/98	3,753,084	55,284	2,420,659	408,732	1,338,775
06/30/99	3,917,253	139,865	2,844,859	553,404	1,474,784
06/30/00	3,985,298	81,407	4,023,286	453,830	1,471,038
06/30/01	4,063,997	70,102	3,020,898	450,939	1,460,048
06/30/02	4,162,288	113,802	3,056,520	671,691	1,507,635
06/30/03	4,207,225	82,087	2,986,841	497,800	1,237,802
06/30/04	4,235,765	139,405	2,995,100	534,089	1,289,249

(1) Includes General, Permanent, Special Revenue, Debt Service, and Capital Project Funds

Table 1 (continued)

Parks and Recreation	Capital Outlay	Debt Service	Total
\$ 613,784	\$ -	\$ 551,466	\$ 6,803,475
737,134	-	543,674	7,119,858
647,131	-	539,610	7,817,296
659,395	-	529,138	8,030,637
1,265,488	-	512,912	9,349,059
843,944	81,069	515,219	10,410,025
1,095,628	-	579,140	10,938,911
878,391	343,724	739,875	10,238,064
1,459,453	-	665,265	10,068,466
738,511	7,574	627,938	10,224,620

Table 2 (continued)

Investment Income and Rents	Fines and Forfeitures	Other Revenues	Total
\$ 297,293	\$ 15,152	\$ 135,848	\$ 7,761,792
409,138	24,500	271,093	8,460,188
447,503	19,730	216,582	8,347,133
535,163	22,609	167,958	8,702,264
439,334	42,282	235,659	9,647,440
206,520	32,090	440,546	10,694,015
541,569	35,931	166,820	9,810,304
289,796	22,299	319,200	10,143,231
293,772	21,215	394,769	9,721,511
239,274	31,621	444,942	9,909,445

PROPERTY TAX LEVIES AND COLLECTIONS (1) - Unaudited

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 3

Fiscal Year Ended	Tax Year Roll	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections
06/30/95	1994	\$ 3,434,872	\$ 3,431,506	99.90%	\$ 4,222
06/30/96	1995	3,536,308	3,530,154	99.83%	5,880
06/30/97	1996	3,669,857	3,665,722	99.89%	3,853
06/30/98	1997	3,808,414	3,801,540	99.82%	3,926
06/30/99	1998	3,959,235	3,833,305	96.82%	127,742
06/30/00	1999	4,047,227	4,037,229	99.75%	9,963
06/30/01	2000	4,083,556	4,072,535	99.73%	3,769
06/30/02	2001	4,178,371	4,151,233	99.35%	3,582
06/30/03	2002	4,226,527	4,208,012	99.56%	34,439
06/30/04	2003	4,253,600	4,244,609	99.79%	8,315

(1) Includes General, Special Revenue, Debt Service, and Capital Project Funds

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (1) - Unaudited

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 4

Fiscal Year Ended	Tax Year Roll	Real Property		Personal Property	
		Taxable Value	Estimated True Cash Value	Taxable Value	Estimated True Cash Value
06/30/95	1994	\$ 139,986,300	\$ 279,972,600	\$ 43,813,900	\$ 87,627,800
06/30/96	1995	145,047,476	295,425,200	48,993,000	97,986,000
06/30/97	1996	149,650,733	307,095,800	52,548,800	105,097,600
06/30/98	1997	156,252,330	327,441,000	54,518,100	109,036,200
06/30/99	1998	162,795,378	346,668,600	60,409,200	120,818,400
06/30/00	1999	168,840,594	366,354,200	62,738,400	125,476,800
06/30/01	2000	176,805,633	394,712,800	55,792,000	111,584,000
06/30/02	2001	184,855,233	413,508,800	54,347,400	108,694,800
06/30/03	2002	194,545,560	433,775,400	46,942,500	93,885,000
06/30/04	2003	198,685,391	450,540,800	44,676,600	89,353,200

(1) Includes industrial and commercial facilities tax and renaissance zones.
 (2) Beginning with the 1995 tax year, property taxes were computed using a taxable value which replaced the assessed value as the computation basis.
 (3) Real Property includes a separate class of property created in 2003 called Personal/Real.

Table 3 (continued)

Total Tax Collections	Percent of Total Tax Collections to Total Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
\$ 3,435,728	100.02%	\$ 10,100	0.29%
3,536,034	99.99%	9,900	0.28%
3,669,575	99.99%	8,898	0.24%
3,805,466	99.92%	9,656	0.25%
3,961,047	100.05%	1,806	0.05%
4,047,192	100.00%	2,164	0.05%
4,076,304	99.82%	17,227	0.42%
4,154,815	99.44%	20,887	0.50%
4,242,451	100.38%	11,980	0.28%
4,252,924	99.98%	11,980	0.28%

Table 4 (continued)

Taxable Value	Total Estimated True Cash Value	Taxable Value To Estimated Actual Value
\$ 183,800,200	\$ 367,600,400	50.00%
194,040,476	393,411,200	49.32%
202,199,533	412,193,400	49.05%
210,770,430	436,477,200	48.29%
223,204,578	467,487,000	47.75%
231,578,994	491,831,000	47.09%
232,597,633	506,296,800	45.94%
239,202,633	522,203,600	45.81%
241,488,060	527,660,400	45.77%
243,361,991	539,894,000	45.08%

**PROPERTY TAX MILLAGE RATES (1)
DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$1,000 OF ASSESSED VALUE) - Unaudited**

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 5

Fiscal Year Ended	Tax Year Roll	General Fund	Dial-a-Ride Fund	Debt Service	Community Events Center	Total City Tax Rate
06/30/95	1994 (A)	16.3083	0.5000	2.2100	-	19.0183
06/30/95	1994 (B)	16.3083	0.4946	2.2100	-	19.0129
06/30/96	1995 (A)	16.1305	0.4946	2.0700	-	18.6951
06/30/96	1995 (B)	16.1305	0.4946	2.0700	-	18.6951
06/30/97	1996 (A)	16.1305	0.4946	2.0300	-	18.6551
06/30/97	1996 (B)	16.1305	0.4946	2.0300	-	18.6551
06/30/98	1997 (A)	16.1305	0.4946	1.9500	-	18.5751
06/30/98	1997 (B)	16.1305	0.4946	1.9500	-	18.5751
06/30/99	1998 (A)	16.1305	0.4946	1.8000	-	18.4251
06/30/99	1998 (B)	16.1305	0.4946	1.8000	-	18.4251
06/30/00	1999 (A)	16.1305	0.4000	1.6500	-	18.1805
06/30/00	1999 (B)	16.1305	0.4000	1.6500	-	18.1805
06/30/01	2000 (A)	16.1305	0.4500	1.6000	-	18.1805
06/30/01	2000 (B)	16.1305	0.4500	1.6000	-	18.1805
06/30/02	2001 (A)	16.1305	0.4500	1.6000	0.2100	18.3905
06/30/02	2001 (B)	16.1305	0.4500	1.6000	0.2100	18.3905
06/30/03	2002 (A)	16.3000	0.5000	1.3805	0.2100	18.3905
06/30/03	2002 (B)	16.3000	0.5000	1.3805	0.2100	18.3905
06/30/04	2003 (A)	16.2544	0.4986	1.3805	0.2094	18.3429
06/30/04	2003 (B)	16.2544	0.4986	1.3805	0.2094	18.3429

(1) In addition, the Downtown Development Authority levies 2.00 mills in the Downtown District.
(A) Homestead Property
(B) Non-Homestead Property

SPECIAL ASSESSMENT COLLECTIONS - Unaudited

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 6

Fiscal Year Ended	Tax Roll Year	Special Assessments Billed	Special Assessments Collected	Ratio of Collections to Amount Billed	Total Outstanding Assessments
06/30/95	1994	\$ -	\$ 13,011	N/A	\$ 12,794
06/30/96	1995	24,684	13,254	53.69%	24,224
06/30/97	1996	65,442	47,315	72.30%	42,351
06/30/98	1997	64,845	420,478	648.44%	65,148
06/30/99	1998	147,125	145,162	98.67%	67,112
06/30/00	1999	38,303	52,661	137.49%	52,754
06/30/01	2000	60,576	56,156	92.70%	57,174
06/30/02	2001	233,319	89,345	38.29%	200,667
06/30/03	2002	-	69,977	N/A	130,689
06/30/04	2003	322,211	185,103	57.45%	267,797

Table 5 (continued)

Alpena Public Schools	Alpena Community College	Educational Service District	Alpena County	State Education Tax	Total Millage Rate
-	2.3073	2.1351	8.1199	6.0000	37.5806
18.0000	2.3073	2.1351	8.1199	6.0000	55.5752
1.0000	2.3073	2.1351	8.2199	6.0000	38.3574
19.0000	2.3073	2.1351	8.2199	6.0000	56.3574
3.9800	2.3073	2.1351	8.4397	6.0000	41.5172
21.9800	2.3073	2.1351	8.4397	6.0000	59.5172
2.9800	2.3073	2.2223	8.0880	6.0000	40.1727
20.9800	2.3073	2.2223	8.0880	6.0000	58.1727
2.9800	2.3073	2.2223	8.0380	6.0000	39.9727
20.9800	2.3073	2.2223	8.0380	6.0000	57.9727
2.4406	2.4990	2.2190	8.0243	6.0000	39.3634
20.4406	2.4990	2.2190	8.0243	6.0000	57.3634
2.1787	2.4868	2.2104	7.9521	6.0000	39.0085
20.1787	2.4868	2.2104	7.9521	6.0000	57.0085
2.4500	2.4787	2.1991	7.5552	6.0000	39.0735
20.4500	2.4787	2.1991	7.5552	6.0000	57.0735
2.3500	2.4750	2.1941	8.0978	6.0000	39.5074
20.3500	2.4750	2.1941	8.0978	6.0000	57.5074
20.3500	2.4750	2.1941	8.0978	6.0000	57.4598
20.3500	2.4750	2.1941	8.0978	6.0000	57.4598

COMPUTATION OF LEGAL DEBT MARGIN - Unaudited

CITY OF ALPENA

June 30, 2004

Table 7

Total taxable assessed valuation		<u>\$ 243,361,991</u>
Charter debt limit - 8% of total taxable value		\$ 19,468,959
Total Bonded Debt	\$ 6,480,000	
Total Other Debt	<u>415,073</u>	
	6,895,073	
Less: Amount available in debt funds	<u>(16,098)</u>	
		<u>6,878,975</u>
Legal debt margin		<u>\$ 12,589,984</u>

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED
VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA - Unaudited**

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 8

<u>Fiscal Year Ended</u>	<u>Population (1)</u>	<u>Taxable Value (2)</u>	<u>Gross Bonded Debt (3)</u>	<u>Debt Service Fund (4)</u>	<u>Debt payable from Enterprise Revenues (5)</u>
06/30/95	11,583	\$ 183,800,200	\$ 5,190,000	\$ 45,359	\$ -
06/30/96	11,517	194,040,476	4,930,000	29,220	-
06/30/97	11,589	202,199,533	4,660,000	25,249	-
06/30/98	11,630	210,770,430	4,385,000	30,345	-
06/30/99	11,656	223,204,578	4,110,000	38,820	-
06/30/00	11,665	231,578,994	3,815,000	26,655	-
06/30/01	11,304	232,597,633	3,525,000	53,560	-
06/30/02	11,304	239,202,633	3,680,000	46,122	-
06/30/03	11,304	241,488,060	3,355,000	34,804	-
06/30/04	11,304	243,361,991	2,980,000	16,098	-

(1) Per Northeast Michigan Community Service Agency
(2) From Table 4
(3) Amount does not include special assessment bonds or revenue bonds
(4) Amount available for repayment of general obligation bonds
(5) This amount includes general obligation bonds that are being repaid from the water and/or sewage funds

Table 8 (continued)

Net Bonded Debt	Ratio of Net Bonded Debt to Taxable Value	Net Bonded Debt Per Capita
\$ 5,144,641	2.80%	\$ 444
4,900,780	2.53%	426
4,634,751	2.29%	400
4,354,655	2.07%	374
4,071,180	1.82%	349
3,788,345	1.64%	325
3,471,440	1.49%	307
3,633,878	1.52%	321
3,320,196	1.37%	294
2,963,902	1.22%	262

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION DEBT
TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES - Unaudited**

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 9

Fiscal Year Ended	Principal	Interest and Fees	Total Debt Service	Total (1) General Governmental Expenditures	Ratio of Debt Service To General Governmental Expenditures
06/30/95	\$ 255,000	\$ 296,466	\$ 551,466	\$ 6,603,475	8.3511%
06/30/96	260,000	283,674	543,674	7,119,858	7.6360%
06/30/97	270,000	269,610	539,610	7,817,296	6.9028%
06/30/98	275,000	254,138	529,138	8,030,637	6.5890%
06/30/99	275,000	237,912	512,912	9,349,059	5.4862%
06/30/00	295,000	220,219	515,219	10,410,025	4.9493%
06/30/01	344,908	234,232	579,140	10,938,911	5.2943%
06/30/02	504,610	235,265	739,875	10,238,064	7.2267%
06/30/03	473,987	191,278	665,265	10,068,466	6.6074%
06/30/04	573,166	328,247	901,413	10,129,015	8.8993%

(1) Includes General, Permanent, Special Revenue, Debt Service, and Capital Project Funds

COMPUTATION OF DIRECT AND OVERLAPPING DEBT - Unaudited

CITY OF ALPENA

June 30, 2004

Table 10

Jurisdiction	Net Debt Outstanding	(1) Percentage Applicable to City of Alpena	Amount Applicable to City of Alpena
Direct Debt			
City of Alpena			
Water Supply and Sewage Disposal System	\$ 3,500,000	100.00%	\$ 3,500,000
Alpena County Sanitary Sewage Bonds	915,000	100.00%	915,000
Public Safety Building Bonds	1,685,000	100.00%	1,685,000
Building Authority Bonds	380,000	100.00%	380,000
Installment Loans	415,073	100.00%	415,073
			<u>6,895,073</u>
Overlapping Debt			
Alpena County	2,375,000	30.59%	726,513
Alpena Public Schools	23,260,000	26.96%	6,270,896
Alpena Community College	2,035,000	26.96%	548,636
AMA ESD	60,000	15.19%	9,114
			<u>7,555,159</u>
Total			<u>\$ 14,450,232</u>

(1) Percentage applicable to the City of Alpena determined using taxable value of the City divided by the taxable value of the taxing district.

REVENUE BOND COVERAGE - Unaudited
WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 11

Fiscal Year Ended	Gross Operating Revenue	Other Income (a)	Total Revenue	Expenses (b)	Net Revenue Available For Debt Service	Principal	Interest
06/30/98	\$ 2,817,862	\$ 130,033	\$ 2,947,895	\$ 2,174,941	\$ 772,954	\$ -	\$ 17,026
06/30/99	2,839,606	539,902	3,379,508	2,500,697	878,811	-	204,600
06/30/00	2,841,624	674,138	3,515,762	2,081,164	1,434,598	100,000	199,762
06/30/01	3,048,264	213,980	3,262,244	2,207,785	1,054,459	100,000	193,662
06/30/02	3,146,591	1,135,604	4,282,195	2,224,895	2,057,300	100,000	187,412
06/30/03	3,019,582	271,611	3,291,193	2,268,333	1,022,860	100,000	137,088
06/30/04	3,154,886	391,641	3,546,527	2,120,197	1,426,330	100,000	173,175

(a) Other income consists of interest and other income
(b) Depreciation, amortization, and bad debt expense not included
Note: Prior to 1998 the City of Alpena had no revenue bonds outstanding.

DEMOGRAPHIC STATISTICS - Unaudited

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 12

Fiscal Year Ended	(1) Population	(2) Per Capita Income	(3) Median Age	(4) Education Level in Years of Formal Schooling	(5) School Enrollment	(6) Unemployment Rate
06/30/95	11,583	\$ 14,298	36.2	12.9	1,609	9.9%
06/30/96	11,517	15,299	37.5	12.9	1,920	9.3%
06/30/97	11,589	15,911	37.7	12.9	2,158	8.0%
06/30/98	11,630	20,010	38.4	12.9	2,082	7.0%
06/30/99	11,656	20,530	38.4	12.9	1,989	6.3%
06/30/00	11,665	21,145	39.7	12.9	1,871	5.7%
06/30/01	11,304	21,779	39.6	12.9	1,953	6.2%
06/30/02	11,304	17,476	39.6	12.9	1,843	8.6%
06/30/03	11,304	23,960	39.6	12.9	1,858	9.5%
06/30/04	11,304	23,960	39.6	12.9	1,767	6.8%

(1) From Table 8
(2) Per Northeast Michigan Community Service Agency
(3) (4) Census Bureau
(5) Alpena Public Schools - City of Alpena residents
both public and private schools
(6) Michigan Works - Alpena County annual averages

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS

CITY OF ALPENA

Last Ten Fiscal Years Ended June 30

Table 13

Fiscal Year Ended	Real Property Value (1)			Commercial and Industrial (2)	
	Commercial and Industrial	Residential	Total	Number of Units	Value
06/30/95	\$ 96,871,600	\$ 183,101,000	\$ 279,972,600	8	\$ 4,466,849
06/30/96	99,589,600	195,835,600	295,425,200	11	1,232,985
06/30/97	102,307,600	204,788,200	307,095,800	5	1,826,600
06/30/98	106,247,400	221,193,600	327,441,000	6	1,729,600
06/30/99	111,302,000	235,366,600	346,668,600	8	706,600
06/30/00	117,694,600	248,659,600	366,354,200	10	5,719,000
06/30/01	127,135,000	267,577,800	394,712,800	45	2,571,631
06/30/02	130,993,800	282,515,000	413,508,800	14	5,288,702
06/30/03	140,307,800	293,467,600	433,775,400	7	1,029,750
06/30/04	141,428,600	308,808,800	450,237,400	15	3,915,280

(1) From Table 4
(2) Source: City Building Official
(3) Data obtained from main offices of banks with branches within the City of Alpena
(Note: these figures do not include savings and loans, and credit unions)

N/A means deposits within the City of Alpena not available.

Table 13 (continued)

<u>Residential construction (2)</u>			
<u>Number of Units</u>	<u>Value</u>	<u>Bank Deposits (3)</u>	
48	\$ 2,127,116	\$ 274,998,000	
19	1,134,500	278,696,000	
23	1,679,472	N/A	
11	594,760	N/A	
14	953,010	N/A	
53	1,816,925	N/A	
134	1,859,431	N/A	
59	1,440,366	N/A	
97	1,937,352	N/A	
54	1,267,499	N/A	

PRINCIPAL TAXPAYERS - TOP TEN - Unaudited

CITY OF ALPENA

Fiscal Year Ended June 30, 2004

Table 14

Taxpayer	Type of Business	Real Property Taxable Value
Lafarge Midwest, Inc.	Cement production	\$ 15,477,348
Besser Company	Concrete block making machines	7,173,535
Decorative Panels, Inc.	Hardboard manufacturing	4,473,097
Alpena Power Company	Electric power utility	436,770
Thunder Bay Manufacturing	Machine shop and foundry	812,046
Panel Processing, Inc.	Hardboard processing plant	1,411,448
Alpena Hotel, LLC	Motel and restaurant	2,058,500
Conveyor Systems, Inc.	Conveyor Manufacturer	980,019
First Federal Savings & Loan	Bank	1,364,456
Alpena Wholesale Grocer	Wholesale Groceries	<u>868,000</u>
Ten Largest Taxpayers		35,055,219
All Other Taxpayers		<u>170,639,239</u>
Total Taxable Assessed Value		<u><u>\$ 205,694,458</u></u>

The taxable values indicated above were established at December 31, 2003 to be used in computing the tax levy for the fiscal year July 1, 2003 through June 30, 2004

Table 14 (continued)

Personal Property Taxable Value	Total Taxable Value	Percentage of Total Taxable Value
\$ 18,498,200	\$ 33,975,548	13.47%
3,364,400	10,537,935	4.18%
4,037,700	8,510,797	3.38%
3,915,900	4,352,670	1.73%
2,861,300	3,673,346	1.46%
1,309,100	2,720,548	1.08%
140,300	2,198,800	0.87%
1,250,000	2,230,019	0.88%
-	1,364,456	0.54%
<u>350,000</u>	<u>1,218,000</u>	<u>0.48%</u>
35,726,900	70,782,119	28.07%
<u>10,726,900</u>	<u>181,366,139</u>	<u>71.93%</u>
<u>\$ 46,453,800</u>	<u>\$ 252,148,258</u>	<u>100.00%</u>

MISCELLANEOUS STATISTICS - Unaudited

CITY OF ALPENA

June 30, 2004

Table 15

Date of Incorporation: 1871

Form of Government: Council/Manager

Number of employees (excluding police and fire): 42

Classified: 23

Exempt: 19

Area in square miles: 8.8

Miles of streets:

Miles of streets: Total - 69.42; Major Streets - 25.81

Local Streets - 43.60; 869 Blocks, 10,775,600 square feet

Number of street lights: 775

Culture and recreation

Community centers: 1

Parks: 14

Tennis Courts: 4

Artificial Ice Arena: 1

Marina: 1

Playgrounds: 4

Park Shelter Buildings: 2

Ballfields: 6

Horseshoe Courts: 4

Outdoor Ice Rink: 1

Beaches: 4

Boat launches: 3

Nature Preserve: 1

Civic Theatre: 1

Skateboard Parks: 2

Fire Protection

Number of Stations: 1

Number of Fire Personnel and Officers: 24

Number of calls answered: 746

Number of inspections conducted: 223

Number of ambulance runs: 2,379

Police Protection

Number of Stations: 1

Number of Police Personnel and Officers: 18 Sworn and 4 Civilian

Number of patrol units: 6 Marked and 4 Unmarked

Number of Law Violations

Arrests: 735

Traffic Violations: 1,476

(Includes O.W.I.), 1,308 (Without O.I.U.L.)

Parking Violations: 443

Table 15 (continued)

Sewage System

Miles of Sanitary Sewers: 82.31
Miles of Storm Sewers: 35.46
Number of Treatment Plants: 1
Number of Service Connections: 4,742
Daily Average Treatment in Gallons: 2,386,000
Average Daily Design Capacity of Treatment
Plant in Gallons: 5,500,000
Maximum Daily Treatment in Gallons: 15,200,000
Number of Sewage Lift Stations: 13

Water System

Miles of Water Mains: 80.06
Number of Service Connections: 4,743
Number of fire Hydrants: 598
Number of Elevated Storage Tanks: 2
Number of Main Valves: 902
Number of Treatment Plants: 1
Daily Average Treatment in Gallons: 2,083,425
Maximum Daily Capacity of Plant in Gallons: 6,000,000

Facilities and Services Not Included in the Reporting Entity

Education

Number of Elementary Schools

School District: 8

City: 3

Number of Elementary School Instructors

School District: 123

City: 55

Number of Secondary Schools

School District: 3

City: 1

Number of Secondary School Instructors

School District: 147

City: 94

Number of Community Colleges: 1

Number of Universities: 0

Hospitals

Number of Hospitals: 1

Number of Patient Beds: 146



Certified Public Accountants

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ALPENA, MICHIGAN 49707
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DONALD C. LEVREN

RETIRED
GORDON A. NETHERCUT, C.P.A.
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WARREN W. YOUNG, C.P.A.

November 15, 2004

To the Municipal Council
City of Alpena, Michigan

We have audited the financial statements of the City of Alpena, Michigan for the year ended June 30, 2004, and have issued our report thereon dated November 15, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 10, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Alpena. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Alpena's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Alpena are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2004. We noted no transactions entered into by the City of Alpena during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the useful lives of fixed assets for depreciation purposes is based on historical information and industry estimates. We evaluated the assumptions used to develop depreciation expense in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Alpena's financial reporting process (that is, cause future financial statement to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicated matters that could have a significant effect on the City of Alpena's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Alpena's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Reportable Conditions

Reportable conditions involve matters coming to our attention, under standards established by the American Institute of Certified Public Accountants, relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic of financial statements. We discovered no reportable conditions that should be reported to management. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions.

Other Matters

Recent Pronouncements. The Governmental Accounting Standards Board and Michigan Department of Treasury, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the City of Alpena maintains its financial records:

GASB Statement No. 40 Deposit and Investment Risk Disclosures. The deposits and investments of state and local government are exposed to risks that have the potential to result in losses. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk and interest rate risk. The provisions of this statement are effective for financial statements after June 15, 2004.

GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004.

GASB Statement No. 44 Economic Condition Reporting: The Statistical Section. This statement improves the understandability and usefulness of the statistical section. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2005.

GASB Statement No. 45 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement establishes uniform financial reporting standards other postemployment benefit plans. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007.

We wish to thank the staff of the City of Alpena for their assistance during the audit.

This report is intended solely for the information and use of the Municipal Council of the City of Alpena, Michigan Department of Treasury, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by City of Alpena, is a matter of public record.

We appreciate the opportunity to serve City of Alpena. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Straley, Ilsley & Lamp P.C.